

103

THE PRESIDENT'S FISCAL YEAR 1995 BUDGET

Y 4. P 84/10:103-36

The President's Fiscal Year 1995 Bu...

HEARINGS

BEFORE THE

SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS OF THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

MARCH 3 AND 10, 1994

Serial No. 103-36

Printed for the use of the Committee on Post Office and Civil Service



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THE PRESIDENT'S FISCAL YEAR 1995 BUDGET

THURSDAY, MARCH 3, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS,
Washington, DC.

The subcommittee met, pursuant to call, at 10 a.m., in room 311, Cannon House Office Building, Hon. Eleanor Holmes Norton (chairman of the subcommittee) presiding.

Members present: Representatives Norton, Byrne, Morella.

Ms. NORTON. Good morning. I'd like to open this morning's hearing on the President's budget.

The President has put a tough budget before the committee, but it reflects the contours set by the Omnibus Budget Reconciliation Act of 1993, which Congress passed last June. Once again, Federal employees and retirees are asked to shoulder enormous sacrifices, compared with other Americans.

Moreover, there is even less room than last year for the kind of compromise this subcommittee was able to fashion that saved locality pay, prevented the transfer of \$688 million in health care premiums from the Government to enrollees, and prevented a 10-percent reduction in survivor annuity benefits.

In contrast, our option on pay this year consists—appears to be to use \$1.1 billion to fund locality pay adjustments or to partially fund national pay adjustments or to do a combination of both. This budget also begins the process of funding the large unfunded civil service pension liability which should have begun years ago when budgets were not as tight.

Last year in Executive Order 12839 the administration's first presentation of downsizing assumed that 100,000 employees would move out of the Federal work force by attrition by the end of fiscal year 1995. The number of reductions projected in the new budget, however, is 118,000 employees, and there is still rank confusion about the starting date for counting the overall reduction of employees.

In any case, the administration abandoned the attrition approach when it became clear that attrition had slowed to a crawl. At the same time, the administration dramatically increased the goal for downsizing to 252,000 employees, a figure that was plausible only because the reductions were to be achieved by buying out employees.

Incidentally, none of the figures put forward for reducing personnel has ever been explained functionally or managerially. The

budget provisions before this subcommittee continue to assume buyouts of Federal employees.

Though this subcommittee and our full committee acted immediately upon receipt of the President's buyout bill, disagreement within the House kept the bill from moving to the floor before the last recess, and disagreement between the House and Senate has kept the bill from moving to conference. However, I am encouraged by actions underway in the Congress to move the matter forward at last.

I spoke by phone with Vice President Gore yesterday and appreciate that he has been personally involved as well. However, OPM itself has become the first casualty. On Tuesday 520 layoff notices were sent to OPM investigation and training employees. These notices were not an intended part of the downsizing process, but the OPM reductions in force if not withdrawn, will indeed be counted in the downsizing reductions.

Certainly, some of the OPM layoffs would have been unnecessary if buyouts had been possible. However unintentionally, these layoff notices have become the first visible manifestation of the reductions contemplated by Vice President Gore's reinvention of Government.

Chairman Frank McCloskey and I met Thursday with OPM Director Jim King and his staff. At the meeting, we discovered that in several instances OPM had delegated some of its authority to conduct personnel investigations to agencies who in turn contracted out this task to private businesses.

Private sector parties were performing under these delegations, while OPM was announcing RIF's. To be sure, Director King found the delegations in place when this administration came into office. To OPM's credit, King's predecessor tried to retrieve some of the delegations in 1992 when it became clear that there was a substantial dropoff in work and, thus, in OPM's revolving fund revenues from other agencies.

To our dismay, however, OPM retreated when the agencies objected. This is exactly the wrong response, and a poor showing of the kind of managerial foresight envisioned by Vice President Gore's National Performance Review.

In the 1980's the Federal Government acted as if it wanted to contract out the entire Government. Contracting out grew precipitously, creating an unaccountable monster that the OMB concedes is out of control. It simply is not fair to move to layoffs, nullification of raises, and other sacrifices from career employees while leaving contractors where they were, without so much as belt tightening.

That is what this budget does. There is procurement reform in this budget. However, there is no outward and visible sign of reforms that translate into reduced spending on outside Federal contractors. Civil servants who get layoff notices are visible, but contractors are part of an invisible government.

As I speak, we cannot be sure that, if we eliminate 252,000 employees, agencies will not replace some of them with contracted out employees. Contractors should be the first, not the last, to be asked to tighten belts that grew several sizes in the 1980's.

I would have preferred this morning to hear from the Government agencies, but OMB could not attend this week, and so we have moved to hear from employee organizations first. Therefore, I am pleased to welcome the national representatives of Federal employee unions and management associations, as well as the national organization representing retirees.

We will be pleased to receive your views at this time, but before I ask the first panel to come forward, I would like to ask my colleague if she has any opening statement. Ms. Byrne.

Ms. BYRNE. Madam Chairman, I would associate myself with your remarks. I do have a formal statement for the record and ask that it be entered.

Ms. NORTON. So ordered.

[The prepared statement of Hon. Leslie L. Byrne follows:]

PREPARED STATEMENT OF HON. LESLIE L. BYRNE, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF VIRGINIA

Madam Chairwoman: I'd like to thank you for holding this hearing today to discuss the president's fiscal 1995 budget request. I would also like to welcome our distinguished witnesses who can tell us how these provisions will affect the people who make our government run.

I think that the general atmosphere surrounding this year's budget as compared to last year's is sort of like the calm after a ferocious storm.

This time last year, we were faced with a budget that slashed benefits for federal employees and retirees at all levels, placing greater burdens on the federal work force than on virtually any other group.

Fortunately, this subcommittee, working in tandem with other like-minded members of both houses and both parties, brought some sanity and fairness to the federal work force provisions of the budget.

And later on in the year, when attempts were made on the House floor to deny federal employees and retirees the benefits which they rightly deserved, this subcommittee stood shoulder-to-shoulder against the proposal and helped to defeat it.

This year's budget marks a pleasant departure in many respects from the plans of last year. In general, it avoids the temptation to achieve deficit reduction primarily on the backs of the federal work force.

I think that this subcommittee can take a good deal of credit for that, since we have demonstrated repeatedly that we will not tolerate attempts to take a pint of blood from the federal work force each time we need to cut spending.

However, the budget plan still falls short of our expectations in a number of respects, and it is the responsibility of this subcommittee to evaluate how these shortcomings will adversely affect efforts to create a top-flight federal work force.

I look forward to hearing from the witnesses about how the shortfall in pay proposed in the budget will impair the process of compensating federal employees at rates that match their counterparts in the private sector and how we can best allocate the funds provided for the federal work force.

I am also interested in hearing how the proposal to require agencies to pay the full government share of CSRS retirement benefits will affect employees who remain in that system, especially in terms of their ability to compete with employees in FERS for promotions and transfers.

Most of all, I would like the witnesses to talk about how the additional reduction of 18,000 full time equivalents over earlier plans to reduce the workforce by 100,000 positions in fiscal 1995 will reverberate throughout the work force.

I believe that it is quite troubling that while the president's budget calls for us to reduce the work force even more than what was proposed last year, Congress still has not provided agencies the means to achieve those reductions.

None of us want layoffs, and attrition clearly will not do the job, but with buy-out legislation stalled, these are becoming the only options available to agencies that must downsize by next fall.

Already, OPM has indicated it must eliminate over 500 positions. I am afraid that the combination of increased pressure to downsize with the decreased possibility of buy-outs is placing agencies in a vise, where expensive and disruptive lay-offs become the only option.

Of course, the people who will get caught in that vise are the federal employees who have been left in limbo for over a year, not knowing what plans they will be

able to make for their futures. I am still hopeful that we can pass buy-outs and help agencies avoid layoffs, but I am afraid we are running out of time.

I hope we can use this hearing today and the one next week to discuss how calling for more reductions in the work force while neglecting the buy-outs hurts the work force and our goals to reform government.

Once again, I thank the Chairwoman for holding this hearing, and I look forward to hearing the witnesses' thoughts on this issue.

Ms. NORTON. We can move then to the first panel. I want to ask Mr. John Sturdivant, Mr. Robert Tobias, Ms. Sheila Velazco, Mr. James Sommerhauser, and Mr. Chris Sullivan to come forward.

I have been informed that Ms. Velazco has to leave early and, if it is all right with her colleagues, she may want to proceed first.

STATEMENT OF SHEILA K. VELAZCO, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES, ACCOMPANIED BY JOHN N. STURDIVANT, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES; ROBERT M. TOBIAS, PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION; JAMES E. SOMMERHAUSER, PRESIDENT, INTERNATIONAL FEDERATION OF PROFESSIONAL ENGINEERS; AND CHRIS SULLIVAN, LEGISLATIVE DIRECTOR, NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES

Ms. VELAZCO. Good morning, Madam Chair and members of the subcommittee. I appreciate your willingness to allow me to do this first.

On behalf of the National Federation of Federal Employees, I am pleased to be here to offer testimony on the impact of the administration's fiscal year 1995 proposal on Federal employees, and ask that my written testimony be entered into the record.

Ms. NORTON. So ordered.

Ms. VELAZCO. Before I begin, however, I would first like to express my thanks to you for all your tireless efforts during last year's budget battle. NFFE had hoped that during this year's budget process we would be facing a different scenario, but apparently that is not to be the case.

Last year, the administration proposed that Federal employees receive neither the national comparability increase nor the first installment of locality pay. Thankfully, through efforts of the members of this committee and others, we were able to salvage locality pay for 1994. Unfortunately, in order to offset the cost of funding locality pay, it was necessary for Congress to cut or delay other Federal employee benefits.

This year President Clinton's proposal for fiscal year 1995 recommends \$1.1 billion for civilian employee pay raises. This would provide enough funds for only a 1.6-percent across-the-board raise for all civilian employees. Unfortunately, this proposal has the effect of reducing pay adjustments over the next 5 years by about 40 percent.

The fiscal year 1995 budget, however, does not mention whether this money should be distributed as a national pay raise, a locality pay raise, or a combination of the two. The administration has announced that it plans to consult with Federal employee unions regarding the best method of distributing the funds.

In effect, the administration has tossed a bag of money to Federal employee organizations and said, "Here, you go fight over it."

Now we do appreciate being involved in the process, but this is really not an appropriate way that we should operate.

NFFE believes that Federal employees should receive fully funded locality pay raises and the national comparability increases. Basic fairness dictates that this be done. Over the past 13 years Federal employees have shouldered a disproportionate share of the cost of deficit reduction. In fact, through cuts in Federal pay and benefits, Federal employees have "contributed" \$163 billion to deficit reduction since 1981.

These tremendous cuts directly led to the development of a pay gap. Each time Federal employees were asked to "contribute," this gap between the Federal sector and the private sector widened, until eventually the public-private sector gap had ballooned to almost 30 percent.

After more than a decade of falling behind private sector salaries, the 1990 Federal Employees Pay Comparability Act promised that Federal pay would be brought up to par. The law was enacted only after Federal executives and political appointees received comparability pay of over 30 percent.

At that time, Federal employees were promised that they would no longer be forced to sacrifice their salaries in order to fund Government. The parties to the FEPCA agreement realized that cutting Federal salaries was counterproductive. While such cuts may have provided immediate monetary savings, they also cost the Government the ability to hire and retain the best and the brightest.

FEPCA represented a compromise on the goal of comparability and also on the rate at which comparability would be achieved. Under FEPCA, Federal pay would reach only 95 percent of comparability, and it would do so gradually, over 9 years. According to the law, any deviation from this approach should be justified, must be justified, by the existence of either a national economic emergency or other serious economic conditions which affect the general welfare.

Currently, all major indicators point to sustained growth in the national economy. Obviously, the current economic climate does not justify setting aside the provisions of the FEPCA agreement.

NFFE, therefore, is opposed to any further attempt to derail the intent and the provisions of FEPCA. While NFFE supports the commitment of the Clinton administration and this Congress toward reducing the deficit, that support is predicated upon a deficit reduction plan that is based on fair, equitable sacrifice by all Americans.

The cuts currently being proposed would roll back the gains made by the passage of FEPCA and have Federal employees once again shoulder a disproportionate share of deficit reduction.

NFFE believes the solution to the dual concerns of Federal pay comparability and deficit reduction lies in reducing the level of contracting out. We believe that at a time when the structure and the size of the Federal work force is being reformed, a similar reform effort must be aimed at Federal contracting out practices.

Currently, the Federal Government spends \$105 billion each year on contracting out. This has become the fastest growing area of Federal procurement. As you recently correctly stated, Madam Chair, Federal contractors have actually become a shadow govern-

ment. Unfortunately, some of the contractors which form this shadow government are not performing effectively.

A recent Office of Management and Budget study of Federal contracting out found out there were instances of poor performance. Contractors were performing governmental work such as program management, incomplete cost and price analyses, and statements of the work to be done and weak oversight of contract performance.

NFFE believes that the administration should mandate a fixed percentage reduction in each agency's level of contracting out that is sufficient to fully fund both pay increases. Such a reduction would allow Federal employees to receive the pay increase they deserve without forcing this committee and Congress to make painful cuts, as it had to do last year.

We look forward to working with this committee, with Congress and the administration in order to ensure that Federal employees receive fully funded pay increases.

Once again, thank you for the opportunity to appear before you today and for your efforts on behalf of Federal employees.

Ms. NORTON. Thank you, Ms. Velazco.

[The prepared statement of Ms. Velazco follows:]

PREPARED STATEMENT OF SHEILA K. VELAZCO, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Good Morning, Madam Chair and members of the subcommittee, on behalf of the National Federation of Federal Employees, I am pleased to be here to offer testimony on the impact of the Administration's fiscal year 1995 budget proposal on federal employees. As you know, NFFE is the nation's oldest federal employee union representing nearly 150,000 workers in over 52 agencies across the nation.

Before I begin, I would like to express my thanks to you, Madam Chair, for all your tireless efforts during last year's budget battle. NFFE had hoped that during this year's budget process we would be facing a different scenario, but apparently that is not to be the case.

Last year, the Administration proposed that federal employees receive neither the national comparability increase nor the first installment of locality pay. Thankfully, through efforts of the members of this committee and others, we were able to salvage locality pay for 1994. Unfortunately, in order to offset the cost of funding locality pay it was necessary for Congress to cut or delay other federal employee benefits.

This year, President Clinton's proposal for fiscal year 1995 recommends \$1.1 billion for civilian employee pay raises. This would provide enough funds for a 1.6-percent across the board raise for all civilian employees. This proposal also has the effect of reducing pay adjustments over the next five years by approximately 50 percent.

The fiscal year 1995 budget, however, does not mention whether this money should be distributed as a national pay raise, a locality pay raise, or a combination of the two. The Administration has announced that it plans to consult with federal employee unions regarding the best method of distributing the funds.

In effect, the administration has tossed a bag of money to federal employee organizations and said, "here you go, you fight over it". This is not acceptable to NFFE.

NFFE believes that federal employees should receive fully-funded locality pay raises and national comparability increases. Basic fairness dictates that this be done. Over the past 13 years federal employees have shouldered a disproportionate share of the cost of deficit reduction. In fact, through cuts in federal pay and benefits, federal employees have "contributed" \$163 billion to deficit reduction since 1981.

These tremendous cuts directly led to the development of a pay gap between federal and private sectors. Each time federal employees were asked to "contribute", the gap widened, until eventually the public-private sector pay gap has ballooned to almost 30 percent.

Finally, after more than a decade of falling behind private sector salaries, the 1990 Federal Employees Pay Comparability Act promised that federal pay would be brought up to par. The law was enacted only after federal executives and political appointees received comparability raises of 35 percent. At that time, federal employ-

ees were promised that they would no longer be forced to sacrifice their salaries in order to fund the government. The parties to the FEPCA agreement realized that cutting federal salaries was counterproductive. While such cuts may have provided immediate monetary savings, they could also cost the federal government the ability to hire and retain the "best and the brightest" for government service.

FEPCA represented not only a compromise on the goal of comparability, but also on the rate at which comparability would be achieved. Under FEPCA, federal pay would reach only 95 percent of comparability and it would do so very gradually, over a nine-year period. According to the law, any deviation from this gradual approach must be justified by the existence of either a national economic emergency, or other serious economic conditions which affects the general welfare. Currently, all major economic indicators point to sustained growth in the national economy. Obviously, the current economic climate does not justify setting aside the provisions of the FEPCA agreement.

NFFE is opposed to any further attempt to derail the intent and provisions of FEPCA. While NFFE supports the commitment that the Clinton Administration and the Congress have shown towards reducing the deficit, that support is predicated upon a deficit reduction plan that is based on fair, equitable sacrifice by all Americans. However, the cuts currently being proposed would roll back the gains made by passage of FEPCA and have federal employees shoulder a disproportionate share of deficit reduction.

NFFE believes that the solution to the dual concerns of federal pay comparability and deficit reduction lies in reducing the level of contracting-out. NFFE believes that at a time when the structure and size of the federal workforce is being reformed, a similar reform effort should be aimed at federal contracting out practices.

Currently, the federal government spends \$105 billion each year on contracting-out, which has become the fastest growing area of federal procurement. As you very correctly stated, Madam Chair, federal contractors have formed a shadow government. Unfortunately, a majority of the contractors which form this shadow government are not performing effectively. A recent Office of Management and Budget study of federal contracting-out found instances of poor performance; contractors performing governmental work such as program management; incomplete cost and price analyses and statements of the work to be done; and weak oversight of contractor performance.

NFFE believes that the Administration should mandate a fixed percentage reduction in each agency's level of contracting-out that is sufficient to fully fund both pay increases. Such a reduction would allow federal employees to receive the pay increase they deserve without forcing this Committee and Congress to make painful cuts like it made last year.

NFFE looks forward to working with this committee, Congress and the administration in order to ensure that federal employees receive fully funded pay increases in 1995. Once again, thank you for the opportunity to appear before you today and for all your efforts on behalf of federal employees.

I will be glad to answer any questions you may have.

Ms. NORTON. Mr. Sturdivant.

Mr. STURDIVANT. Thank you, Madam Chair. On behalf of the American Federation of Government Employees, AFL-CIO, and the fellow employees that we represent, I thank you for the opportunity to come before your committee and to testify on the impact of the President's fiscal year 1995 budget proposals concerning Federal employees.

I also want to take this opportunity to thank you personally for your attention and your intensity on those issues affecting Federal employees, and we certainly thank you for the work that you have done and for the work that we know that you are going to do in the future.

I want to associate myself with your remarks also on some of the costs to Government about contracting out, and I'm going to talk a little bit about it in my statement.

I'm just going to summarize my testimony and I'd like permission to have my full statement entered into the record.

Ms. NORTON. So ordered, Mr. Sturdivant.

Mr. STURDIVANT. Thank you. I want to concentrate today my comments on the issues of Federal pay and jobs. In short, I want to urge you and your fellow Members of Congress to provide for the full nationwide adjustment as well as the full locality adjustment provided for under the 1990 Federal Employees Pay Comparability Act.

In the words of Attila the Hun, if the two options that you are presented with are unacceptable, then find a third alternative. The options that we have been presented with are unacceptable, but in the spirit of trying to help to solve problems, we are proposing a third alternative.

I recommend to you a 3-percent across-the-board reduction in Government spending on contracting out, both as a means of financing the pay raise due Federal employees and as a way to split the burden of deficit reduction that recipients of Federal service contracts have heretofore been spared.

When you're spending \$105 billion a year, we know rational thought tells us that you can squeeze. You don't have to—not even running people off, but you can squeeze 3 percent out of those costs by simply good, aggressive management practices, and that's what we're asking that the administration do.

As I said before, the President's proposals concerning Federal pay are really a mixed bag, but the administration has to be given credit; because we are not so—we're not as far behind as we were last year this time, but we're still behind. So there's an effort to try to make a step, but we just need to make some more leaps. So they've tried.

On the one hand, the President has provided full funding for the pay increase that he suggests, and that aspect of his proposal deserves support, both as a sign that the era of deception and irresponsibility in Presidential budgets, hopefully, may be over, and as evidence that the President recognizes that agencies are so lean that unfunded or partially funded pay raises would require RIF's or other program cuts, which are unacceptable to large constituencies.

On the other hand, while the President has put his money on the table, he has come up short by approximately two-thirds. In other words, we need more money. The law dictates that in 1995 with economic conditions such as currently prevail, Federal employees are entitled to both an ECI based and a locality based pay adjustment.

The President says you can have one or the other, but in a gracious gesture offers that the choice is up to us. We choose not to choose between an ECI raise or a locality adjustment under FEPCA. Federal employees are due both. That is what the budget should provide, and we believe that we have come forth with alternatives on where to find the money.

The President has proposed the elimination of 118,300 Federal jobs in fiscal year 1995, but he cannot propose the elimination of the work that those jobs represent. Currently, agencies have but one option when the workload is incommensurate with the FTE ceilings the budget process imposes. They contract out the work.

The apparent reduction in federal employment is politically advantageous and, inefficient and costly as it may be, the work is still

accomplished. The President's proposal to eliminate 118,300 federal jobs in 1995 should be considered within this context.

AFGE proposes that the 118,300 jobs be eliminated from total federal employment, which in an honest accounting would include both direct employees of the government as well as those employees of the shadow government of private contractors.

In January, the Office of Management and Budget released a report showing that the government spends \$105 billion annually on contracting out for services, and that such spending represents the fastest growing area of government procurement. The report described a virtual absence of rational standards or procedures relating to federal contracting out for services.

OMB also cited the fact that several agencies requested the flexibility or authority to decide whether money set aside for contracting could be used to hire employees of the agency to do the work. Examples were given to OMB which showed that millions of taxpayer dollars could be saved by allowing agencies to perform specific functions themselves, rather than having them performed by contract, but FTE ceilings have precluded this.

In short, the report shows that the government's preference for private contractors over federal agency staff has been irrational from a budget perspective. In an era where the government cannot afford to engage—indulge in the ideological fancy that the private sector is always more efficient, the implications of the OMB study must be addressed.

The Department of Energy has ordered a ten percent reduction in 1994 service contracts. A three percent reduction throughout the government for 1995 would be more than adequate to fund the federal pay raises due under FEPCA, and to allow rational economic decisions about where federal job cuts should come from.

We believe that the shadow federal government should face the same economic/budget scrutiny as direct employees have faced. Give federal agency employees a real chance to compete for government work that has gone to contractors through a ruinous combination of ideology and politically inspired FTE ceilings, and AFGE is confident that the people we represent, along with the American taxpayer, will fare better than under the current system.

Finally, we would hope that Members of Congress would be as vociferous about looking closely at these contracting costs as they have been in the extended debate in both houses over a balanced budget, to find out where is the money going.

I want to once again commend you on your leadership. I note that the Washington Post today is picking up on the story. I see the GAO had a report. So I want to just say, Madam Chair, that you are onto something. Do not let this one go.

The American people deserve to be told the truth about where the money is going, who is spending it, and how it is being spent. I can assure you that this union is working with our colleagues. We are going to raise this issue to a high visibility level, and we are going to take this right on into the 1994 elections.

Thank you.

Ms. NORTON. Thank you, Mr. Sturdivant.

[The prepared statement of Mr. Sturdivant follows:]

PREPARED STATEMENT OF JOHN N. STURDIVANT, PRESIDENT, AMERICAN FEDERATION
OF GOVERNMENT EMPLOYEES

Madam Chairwoman and subcommittee members: My name is John Sturdivant and I am the National President of the American Federation of Government Employees, AFL-CIO. On behalf of the more than 700,000 federal and District of Columbia workers our union represents, I thank you for the opportunity to testify here today on the impact of the President's fiscal year 1995 budget proposals concerning federal employees.

I will concentrate my comments today on the issue of federal pay and jobs. In short, I urge you and your fellow Members of Congress to provide for the full nationwide adjustment as well as the full locality adjustment provided for under the 1990 Federal Employees Pay Comparability Act (FEPCA). Further, I recommend to you a three percent across-the-board reduction in government spending on contracting out both as a means of financing the pay raise due federal employees, and as a way to spread the burden of deficit reduction, from which the recipients of federal service contracts have heretofore been spared.

The President's proposals concerning federal pay are a mixed bag. On the one hand, he has provided full funding for the pay increase he suggests. The aspect of his proposal deserves support, both as a sign that the era of deception and irresponsibility in Presidential budgets may be over, and as evidence that the President recognizes that agencies are so lean that unfunded or partially-funded pay raises would require RIFs or other program cuts which are unacceptable to large constituencies.

On the other hand, while the President has put his money on the table, he has come up short by approximately two-thirds. The law dictates that in 1995, with economic conditions such as currently prevail, federal employees are entitled to both an ECI-based and a locality-based pay adjustment. The President says you can have one or the other, but in a gracious gesture, offers that the choice is up to us. AFGE does not want to choose between an ECI raise or a locality adjustment; under FEPCA, federal employees are due both, and that is what the budget should provide.

WHAT FEPCA STIPULATES

Under FEPCA, General Schedule salary adjustments, effective in January 1995, are supposed to consist of two components: (1) a nationwide increase based on the Employment Cost Index (ECI), and (2) a locality adjustment that applies to areas where non-federal pay exceeds federal pay by 5 percent or more, based on BLS surveys.

The formula for the general increase provides that GS pay rates will be increased in January 1995 by the percentage change in the ECI during the 12 months ending September 30, 1993, minus one half of 1 percent. During that time, the ECI increased by 3.1 percent. Therefore, the January 1995 ECI-based adjustment should be 2.6 percent. The 1995 locality pay adjustment is supposed to be at least one-tenth of the amount needed to reduce 1994 local pay disparities to five percent.

Again according to the law, any deviation from these formulas by the President must be justified by the existence of either a national emergency, or serious economic condition which affects the general welfare. Specifically, the President must cite statistics such as the Index of Leading Economic Indicators (up for the fifth consecutive quarter, and most recently with eight of 11 indicators positive), the Gross Domestic Product (up 7.5 percent for the last quarter of 1993), the unemployment rate (down to 6.4 percent), the budget deficit (estimated to be down to \$180 billion in fiscal year 1995), the Consumer Price Index (up 2.7 percent in 1993), the Employment Cost Index (up by 2.9 percent estimated in 1993), and the Implicit Price Deflator for Personal Consumption Expenditures (estimated by Data Resources Incorporated to be up by 2.7 percent in 1993).

As the President himself made clear in his recent State of the Union address, the economy is currently strong. Nothing in either government or private economic forecasts warrants an alternative pay plan for 1995. The legislative history of FEPCA is just as clear: Congress did not intend alternative pay plans to be offered in economic times such as these.

THE POLITICAL ASPECT OF FEDERAL PAY DECISIONS

After more than a decade of falling behind private sector salaries, the 1990 FEPCA promised that federal pay would be brought up to parity with non-federal salaries. The law was enacted only after federal executives and political appointees received comparability raises of 35 percent. The promise was that federal employees would no longer be forced to fund the government by sacrificing their salaries. Ev-

everyone recognized that it did not benefit the American public to underpay federal employees and in the process lose the ability to hire and retain the best people to do the work of government in its offices, hospitals, research labs, emergency relief efforts, crime fighting units, etc. The promise of FEPCA must be kept, for several compelling reasons.

First is the fact that federal pay lags non-federal pay by substantial sums. Inadequate federal pay has been a recurring problem that has plagued the federal workplace for well over a decade. The statutory goal of comparability was ignored for so many years that by 1990, the federal non-federal pay gap has grown to almost 30 percent. The cumulative loss to federal employees caused by the pay limitations imposed since 1978 has been well over \$100 billion.

Second, federal employees have already shouldered a disproportionate share of the burden of deficit reduction in other ways as well: OMB and OPM's own data show compensation "changes" from 1981 to 1992 saved the government \$163 billion. Those changes cost federal employees the same \$163 billion.

Third, FEPCA represented not only a compromise on the goal of comparability but also on the rate at which comparability would be achieved. Under FEPCA, federal pay would reach only 95 percent of comparability and it would do so very gradually, over nine years. These compromises were made in the economic context of \$300 billion budget deficits and looming recession. Last year's failure to live up to the agreement regarding the ECI adjustment was a relapse to the political and ultimately inefficient pay-setting process which inspired the new law. But today, with lower deficits and strong economic recovery underway, as well as a planned decrease in federal employment of 252,000, there is no just rationale for refusing to allow FEPCA's prudent schedule to advance.

Finally, the Clinton administration has promised to revolutionize government by layering management hierarchies and empowering front-line workers. The plan is that federal workers in a reinvented government will work "smarter," know more, have more responsibility, and be held more accountable. How can the government expect this to occur in the context of falling real incomes? How can the government expect the good will which is absolutely necessary to the success of this project, if it continues to evade FEPCA and allow the pay gap with the private sector to grow? It must also live up to its obligations when it is time to pay salaries.

The plain truth is that if FEPCA is not fully funded, federal employees will conclude that the Clinton administration is not much different from those that preceded it; they will see that they are not valued, that they remain costs that must be reduced.

THE ADMINISTRATION'S "METHODOLOGICAL" PROBLEMS

FEPCA established a process involving the Federal Salary Council (FSC) and Pay Agent for addressing and resolving problems with the operations of the law, such as the alleged flaws in methodology which the Clinton administration cited in last year's attempt to delay FEPCA's implementation. Despite several opportunities, the administration has presented neither criticisms nor suggestions for improvement in the methodology on which FEPCA calculations are based. We are quite willing to study ways to improve FEPCA's methodology through our participation in the FSC, if indeed there is substance to the claims which have been made.

While the methodological issues are being resolved, the pay increases ought to occur as scheduled under FEPCA. There will be ample opportunity to alter calculations of pay disparities during the nine-year phase-in period which end in 2002. Because at least 70 percent of the portion of the gap FEPCA is designed to close will remain after the 1995 increases are paid, there is no danger that the federal government will overpay anyone in the interim.

With all economic indicators heading in the right directions, and with the promise of genuine partnership in reinventing the way the federal government operates hanging in the balance, there is no justification for postponing, reducing, or eliminating the pay adjustments promised by FEPCA for 1995.

THE FEDERAL WAGE SYSTEM

The President's budget also addresses the gap between federal and private pay rates for craft and trade employees paid under the Federal Wage System (FWS). This gap has shrunk in recent years, mainly due to the stagnation in blue collar pay in the private sector. However, in some wage areas, the gap is quite large. At the end of 1993, the gap ranged from zero to over 22 percent. The overall weighted average pay gap was 7.046 percent. The President's proposal purports to treat prevailing rate employees the same as those paid under the General Schedule; the practical effects will be quite different. In some cases, the proposed method of com-

puting pay increases will actually *widen* the gap between FWS and private sector pay.

The President proposes that if the GS employees receive a locality pay increase, but no general ECI-based increase (as was the case in fiscal year 1994), then prevailing rate employees would receive an increase equal to one-eighth or 12.5 percent of the existing pay gap for any given pay area. If the GS employees receive both ECI-based and locality-based increases, prevailing rate employees would receive first 12.5 percent of the existing gap in their pay area, and second, a general increase equal to GS ECI-based increase.

If the GS employees receive only an ECI-based increase, then prevailing rate employees would receive only that increase, across the board.

The intent is to close the pay gap over the same ten year period during which the GS pay gap is supposed to be closed under FEPCA. There are, however, important differences between the GS and prevailing rate systems that must be recognized. First, the pay gaps for prevailing rate employees are generally much smaller than those for the GS, and there are far fewer craft and trade workers. The cost of paying these employees at the prevailing rate is relatively low and does not warrant so gradual a phase-in. Ten years is too long to wait to close the pay gap under the FWS.

Indeed, in some areas, prevailing rates were being paid as of 1993. But by limiting FWS pay increases to some portion of the gap determined by the latest wage survey, new pay gaps were created where none had existed. For example, in the Los Angeles, California Wage Area, the survey showed that it would have taken an average increase of 9.5 percent to bring some employees up to the prevailing rate, while others were already at the prevailing rate. For the latter group, it would only have taken an increase of about 1.5 percent to maintain parity with the private sector. Yet because the Fiscal Year 1994 increase was limited to one-fifth of the pay gap, employees received only an average increase of 0.03 percent. In hourly terms, the increases ranged from \$.03 to \$.04.

In the Dallas, Texas Nonappropriated Fund Wage Area, the effect was even worse. The pay gap increased substantially at every grade as a result of this year's attempt to close 20 percent of the gap. Gaps were created in some grades where a three percent increase would have maintained the prevailing rate. There are other such examples where pay gaps were expanded or created as a result of the misguided efforts to close them. It is likely that these types of contradictory effects will be even more common if the President's proposals for 1995 are enacted. Surely the government can do better for its FWS employees.

The prevailing rate employees' pay gap should be closed immediately, and the excellent system Congress enacted in 1972 should be allowed to work again. If the gap must be closed in increments, the process should be accelerated and implemented so that we do not make matters worse under the guise of bringing improvements.

THE CSRS-FERS COMPETITION

AFGE opposes the President's proposal to require agencies to account for the relative differences in compensation costs between federal employees under the CSRS system and the FERS system. The effect of the proposal would be to engender competition among federal employees and between agencies that serves no useful purpose. Why should federal employees who chose to remain under the CSRS be penalized because the government sought and won the right to reduce the value of the pension benefit it provided to its employees hired after 1984?

In the best case scenario, accounting for the difference in costs between CSRS and FERS participants would simply put additional pressure on agency budgets without offering benefit in return. At worst, it creates the potential for the appearance, if not the reality of discrimination against a group of employees on the basis of their age. As a group, CSRS employees are, on average, older than FERS employees simply because they have all been working for the government for at least 10 years. There is nothing to be gained from this budget proposal, and AFGE believes it should be rejected.

FEDERAL EMPLOYMENT AND THE PROBLEM OF CONTRACTING OUT

The President has proposed the elimination of 118,300 federal jobs in fiscal year 1995. But he cannot propose the elimination of the work those jobs represent. Currently, agencies have but one option when workload is incommensurate with the FTE ceilings the budget process imposes. They contract out the work under the Service Contract Act. The apparent reduction in federal employment is politically advantageous, and inefficient and costly as it may be, the work is still accomplished.

The President's proposal to eliminate 118,300 federal jobs in 1995 should be considered within this context. AFGE proposes that the 118,300 jobs be eliminated from total federal employment, which in an honest accounting would include both direct employees of the government as well as those employees of the "shadow government" of private contractors.

In January, the Office of Management and Budget released a report showing that the government spends \$105 billion annually on contracting out for services (as distinct from manufactured goods), and that such spending "represents the fastest growing area of government procurement." The report described a virtual absence of rational standards or procedures relating to federal contracting out for services.

OMB also cited the fact that several agencies requested the flexibility/authority to decide whether money set aside for contracting could be used to hire employees of the agency to do the work. Examples were given to OMB which showed that millions of taxpayer dollars could be saved by allowing agencies to perform specific functions themselves rather than having them performed by contract. But FTE ceilings have precluded this. In short, the report shows that the government's preference for private contractors over federal agency staff has been irrational from a budget perspective. In an era where the government cannot afford to indulge in the ideological fancy that the private sector is always more efficient, the implications of the OMB study must be addressed.

The Department of Energy has ordered a 10 percent reduction in 1994 service contracts. A three-percent reduction throughout the government for 1995 would be more than adequate to fund the federal pay raises due under FEPCA, and to allow rational economic decisions about where federal job cuts should come from. We believe that the shadow federal government should face the same economic/budget scrutiny as direct employees have faced. Give federal agency employees a real chance to compete for government work that has gone to contractors through a ruinous combination of ideology and politically-inspired FTE ceilings, and AFGE is confident that the people we represent, along with the American taxpayer, will fare better than under the current system.

This concludes my statement. I would be happy to respond to any questions.

Ms. NORTON. Mr. Tobias.

Mr. TOBIAS. Thank you very much, Madam Chair. I really appreciate the opportunity to testify, and I, like my colleagues, wish to thank you for your continuing support for Federal employees and Federal employee issues. It's not a glamorous job. It is often extremely thankless with respect to your colleagues, and we appreciate very much the fact that you have been such a strong champion.

This morning, Madam Chair, I'd like to focus your attention on a very small piece of the \$1.6 trillion budget that has been proposed by President Clinton. It's a \$1.1 billion proposed expenditure for Federal employee pay increases in fiscal year 1995.

That \$1.1 billion expenditure translates into a 1.6-percent pay increase for the existing Federal work force. Now that, as my colleagues have already mentioned, is a step in the right direction. Last year when we were testifying before you, the President had proposed nothing, and what we were able to salvage was the implementation of the comparability system, no small feat in last year's Congress.

Under the existing legislation, Federal employees are entitled to a 2.6-percent increase, based on an increase in the employment cost index, the ECI, and 10-percent closure in the comparability pay gap on a locality by locality basis. Now the cost of implementing the law as it exists today is \$2.7 billion. So the President is \$1.6 billion short.

This is the 17th time in 17 years that Federal employees have been asked to take a reduction in what the law required or the pay agent proposed to the President. Now it's not as though Federal

employees are getting rich and, therefore, the President has to put his foot down.

The most recent report by the President's pay agent shows the pay gap ranging from 23 to 39 percent. We believe, Madam Chair, that the \$1.6 billion additional funds needed to fully fund FEPCA can be found in the \$105 billion agencies annually spend on service contracts.

Now when I say service contracts, I'm not talking about the procurement of goods. I'm talking about the procurement of services. If the Federal Government decreased the expenditures on these service contracts by 1.5 percent, we could have the money necessary to fund a full Federal employee pay increase—a full Federal employee pay increase. 1.5 percent of \$105 billion gives us the \$1.6 billion we need in addition to the \$1.1 billion the President has already provided.

We think reducing service expenditures by 1.5 percent is both doable and wise. In a recent report issued by OMB in January, it found that cost estimates are not performed by many agencies prior to the renewal or extension of existing contracts. OMB found that work inherently governmental was purchased on the outside, and OMB found that improvements are needed to ensure that the Government is getting its money's worth from service contractors.

Now the report did not comment on whether the work should be done at all, whether or not it's necessary to let that contract. Was it wise to spend the money? Now the OMB report mirrors the GAO report discussed in the Washington Post this morning.

The Energy Department pays 26 to 53 percent too much for service contracts. The Defense Department pays 37 to 51 percent too much for service contracts, and our own experience shows that FDIC pays between 44 and 77 percent more based on their own documents, and yet they continue to contract out this work.

Madam Chair, we can squeeze 1.5 percent from \$105 billion, and squeezing those funds would send a powerful message to the Federal employee work force that every aspect of Government must reinvent itself to work better and cost less.

The Federal employee work force is being asked, and rightfully so, to reorganize, to rethink the way it does business, be more efficient and productive and work with 252,000 fewer employees. We, Madam Chair, are up to the challenge, but we believe that others, the private sector, should also be challenged to deliver the services at 1.5 percent less.

I strongly urge this committee to include—to suggest to the Members of Congress that we cut the 1.5 percent in agency service contracts and apply those savings to the Federal employee pay raise that is mandated by FEPCA.

Thank you very much, Madam Chair, for the opportunity to testify. I share in my colleague, John Sturdivant's, remarks that we are going to do all we can to continue to raise this issue to point out how a Federal employee pay increase can, in fact, be funded without any additional costs in the budget. Thank you, Madam Chair.

Ms. NORTON. Thank you, Mr. Tobias.

[The prepared statement of Mr. Tobias follows:]

PREPARED STATEMENT OF ROBERT M. TOBIAS, PRESIDENT, NATIONAL TREASURY
EMPLOYEES UNION

Madam Chairwoman, I am Robert Tobias, National President of the National Treasury Employees Union. On behalf of the more than 150,000 federal workers represented by NTEU, I appreciate your invitation to appear before your Committee today on the impact of the Administration's budget proposals on the federal workforce.

As you know, the President's budget includes \$1.1 billion for federal civilian pay raises in fiscal year 1995. This is sufficient to fund a 1.6-percent across the board raise for all workers next January or some combination of locality pay and a nationwide increase. While this is a vast improvement over last year's budget submission which recommended a complete pay freeze, it is insufficient to keep faith with the Federal Employees Pay Comparability Act (FEPCA) which we have all struggled to get off the ground. In fact, the President's pay proposals have the effect of trimming federal pay adjustments outlined in FEPCA by as much as half over the next five years.

With your help and your leadership Madam Chairwoman, the first installment of locality pay spelled out under FEPCA was implemented in 1993 and eligible federal workers across the Nation received that first increase in their checks just weeks ago. But as you also know Madam Chairwoman, the 2.2 percent Employment Cost Index (ECI), or across the board increase, also mandated by FEPCA was not paid. Proponents of reducing, delaying or eliminating federal pay raises stress that everyone must be willing to give a little if we are to have any hope of bringing our budget deficit under control. Madam Chairwoman, we are no strangers to the deficit reduction process; we have given generously in past years. It is significant that fiscal year 1994 represented the 17th time in 17 years that federal workers either received no raise or a raise that was well below that which was recommended by the President's Pay Agent. It's time to change this track record and make fiscal year 1995 the year we fully implement FEPCA.

Enacted in 1990, FEPCA was the first serious effort at fixing the federal compensation system in 20 years. The Bush Administration, Congress and federal employee representatives worked diligently to bring about this compromise legislation. It established a system to more closely tie federal salaries to local wage rates and make them more competitive with the private sector.

This past November, the President's Pay Agent issued its annual report to the President showing that based on Bureau of Labor Statistics surveys, the average pay disparity between federal and non-federal workers was 27 percent. In some regions of the country, the gap was as high as 39 percent. I think this Report starkly reinforces why FEPCA was enacted in the first place and why it must be fully implemented without further delay or adjustment.

In its 1992 transition series of reports to incoming President Clinton, the General Accounting Office (GAO), in its examination of the public service, presented the following analysis of FEPCA: "* * * Achieving a consensus between the administration and Congress was a long, arduous process that would be difficult to reestablish if the current program were to become sidetracked. Full implementation of pay reform is a key building block of a more effective government and important to the government's ability to attract and retain a highly qualified and motivated workforce." NTEU could not agree more with GAO's analysis.

For fiscal year 95, FEPCA requires a 2.6 percent across the board raise plus a locality adjustment equal to 10 percent of each locality's pay gap. The additional amount necessary to fund these raises is \$1.6 billion. Madam Chairwoman, we believe we have identified the resources necessary to fully fund FEPCA in 1995. We believe they can be found in the \$105 billion agencies spend annually on service contracts. As we all know, the Administration has stated its intent to reduce federal employment levels by 252,000, or 12 percent, over five years. The fiscal year 95 budget calls for achieving 118,000 of this number, or 5.5 percent of the federal workforce by the end of 1995. If the federal government were to curb its appetite for contracting out by a mere 1.5 percent in fiscal year 1995, we would have the funds necessary to fully fund FEPCA. When we are asking the federal government to cut its personnel level by 12 percent, it does not seem at all harsh to explore the possibility of reducing contracting costs by 1.5 percent. In fact, it is an almost painless solution to the federal employees pay funding issue.

In January, the Office of Management and Budget (OMB) issued its "Summary Report of Agencies, Service Contracting Practices". OMB found that service contracts are the "fastest growing area of government procurement", accounting for "\$105 billion of the government's \$200 billion 1992 procurement program". In addition, OMB discovered that cost analyses and independent government cost estimates

are not performed by many agencies prior to the renewal, extension, or even re-competition of existing contracts. Moreover, examples were reported where the government (based on agency projections) could save "several millions of dollars" by performing functions directly rather than having them performed by contract. Contractors are even occasionally performing functions which are inherently thought to be governmental functions. One recent example had a contractor drafting the opening statement a Cabinet Secretary would later give before a Congressional Committee.

Some agencies reported to OMB that even when they are able to demonstrate through studies that it would be less expensive to perform the work in-house rather than contract it out, they are not authorized to hire in order to enable them to bring the work in house and have it performed by government personnel. Apparently, although there is no room in their personnel budgets, there is plenty of room in procurement budgets to accomplish the work. It is ironic that ever tighter restrictions in hiring federal workers are leading to what has been shown to be more expensive contracting out of these services. As the federal government downsizes, it will become even more imperative that contracting out of government functions be used only when truly shown to be more cost effective. Without service contract reform, downsizing is likely to lead to an increase, not a decrease in federal spending.

There are billions of dollars to be saved and sound policy reasons to enact service contract reform. For the federal employees who will be forced to accomplish more with fewer resources following the federal downsizing effort, we ask that a small portion of the savings be used to fund the pay adjustments mandated by FEPCA for 1995. I urge this Committee to carefully review and undertake efforts to cut 1.5 percent of agency service contracts and apply those savings to the federal pay raise for fiscal year 1995.

Madam Chairwoman, I would like to bring to your attention one other matter in the President's fiscal year 1995 budget that could negatively impact federal workers. The Administration has proposed that federal agencies begin contributing a greater share of the cost of retirement benefits into the Civil Service Trust Fund for their employees in the Civil Service Retirement System. Its proposal would require that agencies contribute 18 percent to the retirement fund on behalf of these workers.

Enactment of this proposal would have no impact on the deficit because the added agency contribution would be paid from one government account to another. However, it would substantially increase agency payments to the retirement fund and require an adjustment to the discretionary budget caps to account for the change in procedure. The proposal further specifies that the caps would be raised expressly for this purpose. On behalf of the federal workers we represent, NTEU urges extreme caution in the consideration of this proposal.

We are particularly concerned that legislation authorizing the increase in agency contributions to the retirement fund may not come in tandem with the required increase in the discretionary budget caps. If this were the case, agencies already strapped by years of reductions in salary and expense accounts could be forced to layoff massive numbers of employees to meet their obligations. This is certainly not the intent of the President's proposal, however, I again urge caution in consideration of this sensitive issue.

Madam Chairwoman, thank you again for this opportunity to appear before your Committee and share our thoughts on the impact of the President's budget on federal workers. Your past assistance and support have been instrumental and we look forward to working with you and your staff again this year. Thank you. I would be happy to answer any questions.

Ms. NORTON. Mr. Sommerhauser.

Mr. SOMMERHAUSER. Thank you, Madam Chair. On behalf of the Federal employees nationwide represented by IFPTE, I'd like to thank you for calling this very timely hearing.

I am not going to try to duplicate again the remarks of my colleagues, because I agree with every one of them. I would up Mr. Tobias' number of 1.5 to 3 percent to ensure that we have the proper cushion necessary and maybe to help us in one other arena that we, obviously, need help in, the dispute between the House and Senate.

I would, based on your remarks, Madam Chair, slightly revise my printed testimony in the fact that it appears that one of the things that we need to do is we need to require agencies to annually tell us how much they are spending gross for service contracts.

Let's get it out in the daylight and look at it with everything else. I would hope to add that to what my colleagues have said.

I will also note that we hold very strong concerns over personnel cuts while workload is not going down. If anything, in many areas it is going up. We believe that the President's reinventing of Government will produce quantifiable productivity increases, enabling a smaller work force to still produce the required work. However, some time must be allowed for those productivity increases to come on line before personnel disappear.

We concur with the President's philosophy for thinning the ranks of management and increasing worker-manager ratios. However, unless the thinning of management ranks is done by some method other than reduction in force, people that actually go out the door will not be managers but rank and file workers hit in the bumping process.

The majority of our Federal employee members are in the Department of Defense, and we have quite definitely seen the value of buyouts. We hope that the Congress under your leadership, Madam Chair, and Member Byrne, that we continue to work toward buyouts in those segments of the Government that do not have them.

We would ask you to consider the President's philosophy in his budget proposal on pay raises about allowing the involved parties to work out the allocation of resources. We would ask you not to give up just because buyouts are delayed.

Working together, union members and management can find ways to cover the shortfall by a delay in getting buyouts offered. We can find other things. Working with this subcommittee last year, we found ways to fund locality pay, and we can do it again in this process.

I would also ask you to consider that, other than the executive branch, that you and the Congress have your own employees in the legislative branch. IFPTE represents the Congressional Research Service. The idea of partnership the President has put forward is a good idea. It will draw benefits for the public, and we would ask this subcommittee and its members who are strong proponents to continue that argument with your colleagues to have the same philosophy for your own employees.

I can't say enough about how important it would be for the whole Government to come under the view of the spotlight, not just the Federal employees.

I thank you again for allowing me to testify and would be happy to answer any questions.

Ms. NORTON. Thank you, Mr. Sommerhauser.

[The prepared statement of Mr. Sommerhauser follows:]

PREPARED STATEMENT OF JAMES E. SOMMERHAUSER, PRESIDENT, INTERNATIONAL
FEDERATION OF PROFESSIONAL ENGINEERS

Good morning Madam Chairwoman and members of the subcommittee. I am James E. Sommerhauser, international president of the International Federation of Professional and Technical Engineers. On behalf of the 22,000 Federal employees nationwide represented by IFPTE, I wish to thank you for calling this timely hearing on the effect of President Clinton's fiscal year 1995 budget on Federal workers/retirees.

President Clinton has proposed providing only \$1.1 billion for Federal employee pay raises in fiscal year 1995, and increasing agencies' required contributions to the

civil service retirement fund. IFPTE strongly disagrees with these proposals. The \$1.1 billion budgetary allocation intended for pay raises are insufficient to truly fund comparability and governmentwide cost-of-living increases.

IFPTE would recommend a mandated reduction of 3 percent in contracting out to generate sufficient cost savings to fully fund locality pay raises and the governmentwide cost-of-living increase. Government is not truly reducing in size if employees are laid off while contracting out is increased.

We hold string concerns over personnel cuts while workload is not significantly decreasing. We believe that the President's reinventing of Government will produce quantifiable productivity increases enabling a smaller work force to still produce the required work. However, some time must be allowed for those productivity increases to come on line before people disappear. We concur with President Clinton's philosophy of thinning management's ranks and increasing manager/worker ratio. However, unless thinning of management ranks is done by some method other than reductions-in-force, people that actually go out the door will not be managers but rank-and-file workers hit in the bumping process.

The involvement of our members, employed with the Department of Defense, has proven to this international, as well as its members, that buyouts work. We hope all Federal agencies will be afforded this opportunity. However, we again strongly caution the Congress to adopt President Clinton's philosophy of working as partners on resolving problems and allocating resources, instead of conceding because issues, i.e., buyouts, haven't been resolved in a timely manner. Congress should not cut off its nose to spite its face. I am convinced union representatives in partnership with management could find ways to offset delayed offers of governmentwide buyouts. I would formally ask Congress to remain committed to working toward governmentwide buyouts and allow managers/workers the freedom to resolve shortfalls in the budget by late approval of buyouts.

I have one comment I would like to make relative to other than the executive branch. The legislative branch has many employees, among them, the Congressional Research Service represented by IFPTE, and the idea of partnership is equally beneficial in this branch of government. We ask the subcommittee to take the lead in reminding their colleagues that they are an employer that should be supporting labor-management partnerships.

Madame Chairwoman, again on behalf of the members of IFPTE, I wish to thank you for calling this timely hearing on the effect of President Clinton's fiscal year 1995 budget on federal worker/retirees. I would be happy to answer any questions at this time.

Ms. NORTON. Mr. Sullivan.

Mr. SULLIVAN. Thank you, Madam Chair. To ensure that you're batting 1,000 this morning, I'd like to thank you as well and Congresswoman Byrne for your efforts during the last year on behalf of Federal employees. We at the National Association of Government Employees feel confident that those efforts will continue.

As well, my colleagues on the panel have spoken eloquently about the current problems and some of the solutions. So I'd just like to add a few additional remarks on behalf of NAGE.

We believe that each agency's budget should include the total dollar amount paid to contractors in each fiscal year, as well as the number of contract employees for each function. Mistert Sturdivant and Tobias pointed out that OMB estimates \$105 billion annually is what's paid to contractors, but that's an estimate. We don't know. The figure should be something that should be right up front in the budget, just like all the other Federal Government expenditures are up front in the budget that affect Federal employees.

I know that in 1989 some estimates placed the size of the Federal contractor work force in excess of 8 million persons, which is almost four times the size of the Federal nonpostal work force, and there have been problems as well.

For example in 1990 the House Appropriations Committee conducted a study to determine the impact of contracting out on defense appropriations. Their conclusions were stunning. The study

concluded that the cost of defense operations actually increased by as much as \$164 million per year from 1980 to 1990 because of wasteful contracting out, and the committee found that the cost of contractor performance continued to escalate faster than the cost of in house performance, that the cost comparison process of contracting out was flawed and resulted in a misappropriation of the overall budgetary impact of the A-76 program on defense.

Incredibly, though, the National Performance Review says that: "The Pentagon must overcome its bias against out-sourcing." We find it's incomprehensible, considering that there are legions of studies that have shown that contracting out is wasteful. Mistert Sturdivant and Tobias have both pointed out about the GAO report that's in today's Post.

In yesterday's Post there was an article in the business section detailing a report put out by the Senate Government Affairs Committee, Senator Levin's subcommittee, on oversight of Government management. It's called "Off-Loading; The Abuse of Inter-agency Contracting To Avoid Competition and Oversight Requirements."

This report was just released this week. It concluded that improper offloads total at least in the hundreds of millions of dollars a year, but that it's impossible to determine accurate totals because there is no system in place to track offloads and that DOD offloads more than \$3 billion in contracts to other agencies each year.

Part of the reason DOD off-loads is to avoid competition and to avoid oversight, and this report documents more than 200 million in improper offloads.

So in conclusion, Madam Chair, I echo the sentiments of my colleagues. I've tried to point out just a few of the studies that have been conducted over the years that have shown that, there is plenty of room to wring out the additional \$1.6 billion for the Federal employees' pay raise this year. Thank you.

Ms. NORTON. Thank you very much, Mr. Sullivan.

[The prepared statement of Mr. Sullivan follows:]

PREPARED STATEMENT OF CHRIS SULLIVAN, LEGISLATIVE DIRECTOR, NATIONAL
ASSOCIATION OF GOVERNMENT EMPLOYEES

I. INTRODUCTION

The National Association of Government Employees (NAGE) is an affiliate of the Service Employees International Union, the fourth largest union in the AFL-CIO. NAGE is the fourth largest federal employee union in the country, representing thousands of federal employees in the Department of Defense, Department of Veterans Affairs, Department of Transportation, and many other federal agencies. We appreciate the opportunity to appear and testify before the Subcommittee on Compensation and Employee Benefits of the House Post Office and Civil Service Committee regarding the Clinton Administration's fiscal year 1995 budget. We especially appreciate Chairperson Eleanor Holmes Norton's superb efforts on behalf of the federal employee community during the 103rd Congress. NAGE members are indebted to you and your staff for the long hours spent searching for fair solutions to the problems which have confronted the federal employee community. We look forward to working with you in the future as well. Our testimony today elucidates some of the greatest problems we see with the fiscal year 1995 Clinton Administration budget and poses some alternatives that we hope the Administration and the Congress will consider to achieve the required budget savings while treating the federal employee community fairly.

II. AREAS OF CONCERN TO FEDERAL EMPLOYEES

A. Reduction in Federal employment

The Clinton budget implements the reduction of 118,300 federal employees, toward its stated goal of the 252,000 reductions recommended by the National Performance Review. This represents a cut of about 12 percent of the civilian non-postal work force through 1999. In previous testimony before this committee, we have questioned how the 252,000 figure was arrived at. Nevertheless, NAGE remains concerned as to how these reductions will be achieved. A consistent pledge has been that the reductions will occur by attrition to alleviate the need for costly and disruptive Reductions in Force (RIF's). While the Clinton Administration has voiced support for the passage of buyout legislation to accomplish these reductions without RIF's, we are disappointed that the rhetoric of the Administration has not been matched with action. While both the House and Senate have cleared buyout legislation, significant differences remain in the House and Senate positions which jeopardizes enactment of one of the smartest and cheapest ways to reduce personnel.

In addition, NAGE was dismayed by the Office of Personnel Management's (OPM) recent announcement that it would RIF 523 persons over the next two months. It is clearly an ominous indicator when the federal agency theoretically responsible for personnel management announces a damaging RIF during FY94 while the Administration is claiming that much larger reductions will be able to accomplish by attrition and buyouts. This announcement is a serious breach of the Administration's purported policy of using RIF's as a last resort, and if this announcement is any indicator, it signals a fear that the Reinventing Government program is merely an extension of Reagan Era policies designed to balance the budget on the backs of hardworking federal employees for political gain while hampering employees' ability to accomplish their mission.

B. Pay raise for General Schedule employees

Though an improvement over the FY94 budget in which the Clinton Administration attempted to freeze completely the pay of federal employees, the fiscal year 1995 budget still grants to federal employees roughly half the loaf required by the 1990 Federal Employees Pay Comparability Act [FEPCA]. As you know, FEPCA was enacted to rectify the huge gap between federal sector employees and private sector employees that resulted from years of past wage freezes or salary increases that failed to keep up with either private sector increases or inflation. At the time that FEPCA was enacted, the average pay gap between the federal workforce and their private sector counterparts was 29 percent. FEPCA's bold move to a locality based system insured that public sector pay would be comparable with private sector pay in the same locality. To bridge this gap, FEPCA requires an across the board Economic Cost Index [ECI] adjustment and a locality based increase. Because of budget constraints, FEPCA phases in comparability over a period of years. This was a compromise designed to fix the problems of the General Schedule while accommodating daunting budget deficits.

Unfortunately, barely three years after the passage of FEPCA, the Clinton Administration moved to eliminate both the ECI and the locality based increases. Congressional intervention and hard sacrifices to achieve the savings required to implement locality pay were required in order to save locality pay, although the 2.2 percent ECI adjustment was canceled.

This year, the Administration has included \$1.1 billion for additional pay raises for fiscal year 1995. While we are pleased that a full freeze on pay has not been proposed, NAGE is nonetheless disappointed by a figure that is about 60 percent less than what would have been provided for under FEPCA. To fund the full FEPCA raise, which would include both the ECI adjustment and the locality adjustment, would cost approximately \$2.8 billion. We pledge to work with the Chair to find the \$1.7 billion in savings elsewhere in the budget to fully fund the legislatively mandated federal employees pay raise and will identify some possible solutions elsewhere in this testimony.

C. Pay raise for Wage Grade employees

While much attention has been focused during the last few years on white collar pay reform embodied in FEPCA, additional problems exist for blue collar employees, who represent about 12% of the civilian non-postal workforce. Blue collar employees in the federal government have operated on a locality based system since 1970, which Congress designed to require the federal government to pay its wage grade employees wages commensurate with those in the private sector. This pay system, which is administered by the Federal Prevailing Rate Advisory Committee [FPRAC], of which NAGE is a member, has worked well throughout the years when it has

been able to function according to design. However, in 1977, as a means to cut the deficit, Congress placed caps on the percentage increases for wage grade employees by tying the percentage increases for blue collar employees to the percentage increases allotted for white collar employees in the federal sector. Thus, for example, even if the locality survey indicated that carpenters employed in a particular wage area would receive a 10-percent increase in the private sector, the carpenter in the blue collar wage system's raise was capped at the white collar increase. These caps, implemented each year since 1977, hamstrung the system and allowed wide disparities between public and private sector pay in the blue collar arena.

The National Association of Government Employees has been working diligently, both on the Hill and in its capacity as a member of FPRAC, to eliminate these caps so that the locality pay system can work correctly. Last year, in the Treasury Postal Appropriations Bill, Congress acted to lift the caps over a period of several years. Yet the solution was tied to an assumption that white collar federal employees would receive their scheduled FEPCA adjustments. Unfortunately, despite Congressional action to close the gaps, because of the denial of last year's white collar workers' ECI adjustment, the gap between blue collar employees in the federal sector and the private sector in certain areas was further widened.

Impacts on the blue collar workforce from President Clinton's fiscal year 1995 budget would be as follows:

If GS employees receive only locality pay increases in the fiscal year 1995 budget, blue collar workers will receive 12.5 percent of the gap between the fiscal year 1994 levels and this year's wage surveys.

If GS employees receive only the ECI adjustments, in the fiscal year 1995 budget, blue collar workers will receive only the ECI adjustments.

If GS employees receive both locality pay increases and ECI adjustments in the fiscal year 1995 budget, blue collar workers will receive 12.5 percent of the gap between the fiscal year 1994 levels and this year's wage surveys and the ECI adjustments.

NAGE is working with OPM to discover the cost estimates for each of the above proposals. Alternatives must be found to prevent further disparities from arising in the blue collar system, and accordingly, NAGE pledges to work with you to insure an equitable solution for blue collar employees during fiscal year 1995.

D. CSRS pension funding

Current law requires CSRS employees to contribute 7 percent of their basic pay to participate in the Civil Service Retirement System, and requires agencies as well to contribute 7 percent. With recent information that the full cost of the retirement amounts to 26 percent of salary and with recent political pressure on the issue of unfunded pension liabilities in the private sector, the fiscal year 1995 Clinton Budget ups the agency contribution to 19 percent.

This raises two concerns for NAGE. First, if these costs are required to be absorbed in agency budgets, important programs may be jeopardized and personnel reductions may occur to meet this shortfall. As you are aware, this is one provision that is already jeopardizing the buyout legislation that is so urgently needed to achieve personnel reductions without RIF's. A requirement for each CSRS employee, including those not subject to buyouts would only add to the current chaos on this issue.

Second, if the proposal to allocate the cost is implemented, dangerous signals loom on the horizon for CSRS employees. Since the contributions have usually been equal in the past, NAGE believes it would not be too long before the proposal came along mandating an even 13 percent by each side, which would result in a huge cut in pay for federal employees. An increase from 7 to 13 would be a major financial blow to our members, many of whom are at the lower end of the General Schedule and earn less than \$30,000 per year.

III. ALTERNATIVE MECHANISMS TO REDUCE THE DEFICIT

The National Association of Government Employees recognizes and understands that the need to reduce the budget deficit will require everyone to tighten their belts. But federal employees have been asked to sacrifice more than their fair share as the 12 years of Reagan and Bush budgets sought to decimate the benefits and pay of federal employees. The GAO documented \$118 billion of cuts to federal employees from fiscal year 1981 to fiscal year 1991, including salary freezes, benefits reductions, cuts in health care coverage, and elimination of retirement provisions such as the popular lump-sum option. Federal employees continue to shoulder many burdens including the fear of furloughs or reductions-in-force, staffing shortages, and workload increases. When these concerns are added to the fact that all of our

members shoulder all of the increases in taxes that the general population must accept, it is certainly true that federal employees have done their duty over the past few years.

Recognizing the importance of reducing the federal deficit, the National Association of Government Employees is here today to discuss possible alternatives that, if implemented, could greatly reduce the deficit while funding the programs which are important to the federal employee community.

A. Buyouts

A measure that would allow some federal workers to get cash incentives to leave their jobs won approval from both the House and the Senate, yet is now stalled because of budget and deficit reduction concerns as to where the savings are allocated. Designed to help implement the "reinventing government" proposal, to shrink the federal bureaucracy, H.R. 3345 would allow some federal managers to offer cash bonuses of up to \$25,000 to certain workers as an incentive to leave their jobs.

The financial constraints placed upon the federal government make the need for buy-outs ever more urgent. By encouraging employees to retire early, the government saves money by long term personnel costs while avoiding costly and upsetting RIF's. It is clear that Congress must act to approve the buyout bill and we urge that provisions that severely damage the bill's prospects be deleted in conference.

B. Contracting out

The main focus of today's testimony is to identify the places in the budget where federal employees are absorbing cuts and to find areas to achieve savings to replace these cuts. There is no question that we look no further than the government's policy of contracting out. For twelve years federal employee unions fought against the ideological onslaught that federal employees were lazy and overpaid and that private contractors could deliver better service at a lower price. For the past twelve years, we have pointed to countless GAO reports documenting cost overruns when the Federal Government relied on private contractors to provide services to taxpayers. We fought for statutory reform because of the bias toward contracting contained in OMB Circular A-76 and its failure to monitor the true cost of contracts. While the government claimed savings from contracting, billions of dollars went out the back door. Yet federal employees lacked a level playing field on which to compete for the work farmed out to contractors.

At times, we achieved victories, when Congress stopped to examine the true cost of contracting out. In 1990, the House Appropriations Committee conducted a study to determine the impact of contracting out on defense appropriations. The study concluded that the cost of defense operations had actually increased by as much as \$164 million per year from 1980 to 1990 because of wasteful contracting out. The Committee also found that the cost of contractor performance continued to escalate faster than the cost of in-house performance, and that the cost comparison process of contracting out was flawed and resulted in a misappropriation of the overall budgetary impact of the A-76 program on Defense. Yet incredibly, despite the well documented abuses that arise from contracting out, the National Performance Review, in its chapters on "Making Service Organizations Compete," opens the door for increased contracting out. The NPR report, giving special attention to the Department of Defense, the very organization where documented abuses are rife, stated that the Pentagon must overcome its "bias against out-sourcing." NAGE finds this statement incomprehensible.

While the administration, through the NPR, has asked Congress to remove legislative barriers to contracting out, The National Association of Government Employees has consistently supported legislation to regulate the abuses entailed by contracting out. NAGE continues to believe that contracting out has been a huge failure and that tempting political rhetoric should be rejected when privatization decisions are made for ideological reasons.

The NPR's proposal to allow private employers to hire private contractors to monitor and inspect their workplace sites for violation of OSHA standards, and thus replacing Department of Labor employees who currently perform this role, provides a clear example of abuses that could stem from contracting out. Too often, in order to receive the contracts, the contractor must produce the results that the facility wants to see. If a contractor continually reports that a facility needs to spend money on major changes to make the workplace safe, the potential exists for OSHA requirements to go unenforced and thus exposes employees to untoward risks. This recommendation is especially outrageous when Congress is attempting to revise the OSHA law due to widespread concern regarding its lack of effectiveness.

While Clinton's FY95 budget announces the Administration's initiatives to simplify procedures for procurement of products and eliminate waste resulting from

current inefficiencies of the current system, it does little to reform abuses existing in the current contracting out system. The budget does announce that the government will make supplier past performance a greater consideration when evaluating whether or not to award new contracts. While this is a step in the right direction, the National Association of Government Employees would like to see the administration go much further in delivering a government that works better and costs less.

First of all, each agency's budget should include the total dollar amount paid to contractors in each fiscal year, as well as the number of contract employees for each function. In 1989, some estimates placed the size of the federal contractor workforce in excess of 8 million persons, or almost 4 times the size the federal workforce. Part of the problem with contracting out is that its expenditures are distributed throughout agency budgets and can often be kept hidden. By announcing this figure up front, Congress and the Administration can determine whether the amount of money allocated to contracting squares with the performance of the services provided.

This leads to our second point; there exists no comprehensive auditing procedures for federal contracts. In 1989 the House Defense Appropriations Committee audited over three dozen contracts and determined that in all but one of the contracts it would have been more cost effective to have performed the functions in-house rather than with contractors.

NAGE recommends that prior to contracting out, agencies should be required to submit a report to Congress detailing the effects on the productivity and efficiency of the Agency. In addition, NAGE recommends that agencies should be required to demonstrate an investigation into the quality of the contractor work as well as the cost. Subsequent to contracting, there should be routine reviews of the net effect of contracting out at the agency. A central data base should be maintained to allow the government to better understand and control the effects of contracting out on the federal budget.

Finally, there must be enacted a statutory scheme for making contracting decisions which assures a level playing field between federal employees and contractors and requires the savings claimed in bids to be achieved through the elimination of cost-plus contracts. Such standards will assure greater uniformity and greater accountability to create a government that works better and costs less. Certainly, there should be a requirement that work that is not being done in a cost effective manner should be brought back in to be performed by government employees. NAGE believes that a thorough review of the government's contracting decisions would yield savings paying for the pay raises legislated by FEPCA and a comprehensive buyout bill many times over. We look forward to working with you to completing this work.

IV. CONCLUSION

The National Association of Government Employees appreciates the opportunity to appear and present our views on the Administration's budget. We urge this committee to take a closer look into the wasteful spending programs and to develop innovative approaches to reducing federal spending rather than resorting to balancing the budget on the backs of federal employees.

Ms. NORTON. I appreciate the testimony of all of you gentlemen. We worked well together when we were faced with constraints, and they seem to be trying this out again, because they moved the goal further away this time; but you can be assured, as your testimony has indicated, that we're not about to give up.

We are going to have to be creative, since some of what you suggest is not even within the jurisdiction of this committee. For example, as you may be aware, contracting is not in the jurisdiction of this committee.

It would appear that at this stage the Appropriations Committee alone perhaps would have jurisdiction to do anything about this. Do you agree, and have you considered any action that might be taken as to committees that might be in a position to look more closely at contracting out and take actions similar to those you recommend?

Mr. TOBIAS. Madam Chair, we have been speaking with both the Budget Committee and the Appropriations Committee, attempting to gather something that would be applicable across the board. I think it would be very difficult to go appropriation by appropriation.

What we're trying to get is agreement that this 1.5 percent would be applicable to all agencies, under all circumstances, because we believe firmly that 1.5 percent can, in fact, be squeezed out of the \$105 million.

Ms. NORTON. Now your 1.5-percent figure is interesting, in light of the fact that most of you have testified to twice that figure.

Mr. TOBIAS. The 3 percent, Madam Chair, comes from a total funding. It's 3 percent to fund \$2.7 billion. The President in his budget proposed \$1.1 billion as part of his budget. So what we need is another 1.5 percent from the contracting out or \$1.6 billion to fund the \$2.7 billion that's needed for both locality and ECI adjustment.

Ms. NORTON. And you're just throwing in the extra percent and a half after that?

Mr. TOBIAS. Did I say it twice? The answer is more, Madam Chair. I think the numbers are \$1.1 billion is what the administration——

Ms. NORTON. That's already there.

Mr. TOBIAS. That's there. We need another \$1.6 billion for \$2.7 billion. You get that \$1.6 billion with the 1.5 percent.

Ms. NORTON. I understand that, but you've asked for a 3-percent——

Mr. TOBIAS. No, no.

Ms. NORTON [continuing]. Cut in contracting.

Mr. TOBIAS. No. We're only asking a net 1.5 percent.

Ms. NORTON. Could I then have some elaboration upon the 3-percent figure?

Mr. STURDIVANT. The 3-percent figure came early on when we first started our discussions with the administration about funding patterns. If the administration did not put any money aside, then we would have needed 3 percent to fund the entire pay raise.

Ms. NORTON. I see.

Mr. STURDIVANT. Of course, the 1.5 percent is the minimum that you need. That is the minimum.

Ms. NORTON. I understand. I understand. So you, in other words, had asked for 3 percent, and you all were able to get at least approximately half of that from the administration.

Mr. STURDIVANT. I might add also that we're still having some discussions with the administration about this proposal.

Ms. NORTON. Are these discussions going on in the new Partnership Council?

Mr. STURDIVANT. No; these discussions are going on between the heads of the Federal unions along with representatives of the Public Employee Department and Mr. Panetta.

Ms. NORTON. Has the Partnership Council met, and is it in operation?

Mr. STURDIVANT. Yes. The Partnership Council has met. We've had some discussions. This is not something that we believe properly belongs—while the spirit of partnership is always helpful, this

is something that we do not see in the Partnership Council at this point in time. We have a Federal salary council which makes recommendations on pay, and that is the proper forum.

We are in the process now of trying to find the funding to enable the law to be applied as it is.

Ms. NORTON. I take it that the Partnership Council goes really to structural changes more than to operational and pay matters.

Mr. TOBIAS. It goes to human resources, personnel policies and practices and working conditions as opposed to pay matters.

Ms. NORTON. Now last year we were able to move forward by, first, holding hearings and invited the unions to indicate their preferences, and it was the strong preference of most that we fund locality pay rather than the ECI adjustment, if it came to that.

Of course, it certainly came to that. What is your order of priority this year, assuming that we were unable to get all we desired? Of course, I don't ever proceed with the notion in mind that we can't get what is deserved, but I certainly like to know where you stand in case there is any shortfall.

Mr. STURDIVANT. With all due respect, Madam Chair, we simply have not had those discussions among ourselves, because we feel quite strongly that both the ECI and locality should be funded. I can remember we had one brief discussion perhaps, and we discarded it. At this point in time we're not talking about either/or, because we believe that the money exists to pay both.

Ms. NORTON. Our experience has been—I was—another of my committees with my enthusiastic support cut 10 percent from the part of the budget that funds courthouses, because we found that people were building palaces of justice rather than courthouses, and we simply cut 10 percent.

We indicated in our authorizing committee where that money should go. That money went into the general coffers for deficit reduction and did not go where we wanted it to go. Only so much was under our jurisdiction. We did what we had to do. I'm glad we cut the courthouses, and maybe the 10-percent reduction helps us somehow this year maybe even with the \$1.1 billion, but the fact is we didn't have control over where the savings would go.

Have you in your discussions with the Budget Committee or others gotten an understanding with respect to where the contracting out savings would go? Are you satisfied that—I could go on the floor right now and I could put an amendment that would say I want to reduce 10 percent from contracting out, and I think I would get way over 218 and pretty close to the entire House. The next step is what I could not guaranty you.

Mr. TOBIAS. Madam Chair, we have not received ironclad agreement from the Budget Committee or the Appropriations Committee that the reduction applied to Federal employees' pay. That's the help that we need.

Mr. STURDIVANT. I might add that in our discussions, and certainly with some of the things—you know, when you talk about trying to work together on behalf of the American people, then you're really talking about trying to work in some type of atmosphere where there's trust and where one's word can be relied on, which as we know in this town is the only currency that you have.

Some of these prior experiences have been disappointing, because we have come forth with cost saving ideas before, only to see the ideas snapped up quickly, and to see the money go somewhere else other than where we recommended. So that is a significant problem that we hope that, if we can begin getting over some of these hurdles, then we will get there, and we certainly need your help and of the committee on that.

Ms. NORTON. Well, and you will have my help, and I should hope that you would have the administration's help, for the reason that, as your testimony—testimony of several of you indicates what we are now beginning to see is a cumulative effect here.

Year after year, you have one or another kind of reduction facing Federal employees. Nowhere in the private sector do you get that. To do that when what you have is a kind of guaranteed employment, and everybody at least goes on year after year—of course, we're trying to do buyouts voluntarily now, but to do it in that atmosphere is bad enough; but at least these are people who have jobs, and jobs have tended to be there.

The reinvention of Government notion really puts the Government in a different matrix altogether. The OPM has done no studies, for example, that make us aware that, with a reduced work force, the same amount of work can be done—I'm sorry, the OMB—can be done efficiently. So we don't even know if the people who are left will have more work.

I know that, for example, in the Government, the Government is notoriously light years behind in issuing regulations. You know, everybody knows that the staff that work on regulations for years have been overworked, but if you go to agencies like the EPA you will see that there are—or OSHA—you will see that regulations just never come out.

OSHA has tried to do generic regulations that both industry and unions agreed with, just because there are often dozens and hundreds of substances they just never get to. So we have no guaranty that there won't be more work.

We know there's going to be a reinvention of Government. We know reinvention or reform of Government doesn't take place if employees just feel undermined, and I think you put a foot backward, not forward, if you continue to rob people of promised, indeed statutory, raises while saying, and by the way, help us make this a better, more efficient Government. You will certainly have my support. The notion of taking this reduction and then letting it sink somewhere that nobody can find it and say we did our duty, I don't think, sells anywhere near as well in a reforming Government climate as it apparently has before.

On the other hand, with locality pay there will be—we are increasingly meeting arguments that the theory of locality pay is itself being undermined by economic conditions. For example, you have even today argued that the Government's ability to attract and retain top quality people is threatened by the gap, this persistent gap between the public and the private sectors.

What we, of course, are told and what you know is that attrition has slowed dramatically. We know that the private sector is engaged in downsizing. So that the argument essentially is put forward that, as the market goes, you aren't having—we aren't hav-

ing, we the Government are not having trouble recruiting people, and indeed people aren't leaving.

So this pay gap does not have the effect, it will be argued, of restraining the Government's ability to attract employees equal to those who come to the private sector. What would be your response to that argument that we ourselves are meeting?

Mr. TOBIAS. Madam Chair, I think that you put your finger on how the market is disrupted. There's no question that there is a pay comparability gap, and there is no question that it is difficult to attract people to the Federal Government.

What we have is the normal attrition, the normal retirement is being disrupted because of the failure of Congress and the administration to either say there will be buyouts or there won't be buyouts. So people are staying on an abnormal period of time with the hope that their retirement will be accompanied by \$25,000. That's not an unwise decision on the part of individuals, but it does have the effect of disrupting the normal market for Federal employees.

This gap exists. It has existed, and it continues to exist, and what we're looking at is a way of solving that problem and closing a gap, as Sheila Velazco talked about, that has resulted in \$163 billion in lost pay and benefits over the last 10 years.

Mr. STURDIVANT. I think another piece of that, too, of course, is that the private sector economy has been in trouble, and we see, hopefully, that the private sector economy is beginning on the upswing. So what is going to happen, is that you are going to have—you're going to have downsizing, and you have had downsizing in the private sector.

What is going to happen is that, as the private sector economy, hopefully, recovers and starts to move, you will have people leave Government; but what this country can't afford and what the taxpayers can't afford is the people that you will have leave Government are going to be the very people that you want to retain in Government in order to drive the Government toward a high value workplace that could provide quality service for the taxpayers.

So you can argue—some might argue that you're down in a trough because of the private sector economy, global competition, but there will be tremendous competition for those highly motivated, creative people who can—who are the equivalent of rain-makers in whatever company, enterprise or agency that they are in, and the Government will not be able to compete to keep those.

So we will continue to drive them to the lowest common denominator, and taxpayers will continue to be disappointed with their Government and ultimately will continue to be disappointed with the elected leaders who they charge with making that Government work.

Mr. SOMMERHAUSER. Also, Madam Chair, if you look at what's happening, we're building a big hit for the future. We know that attrition would be normally much higher than it is today.

I agree with my colleagues that the buyout question is causing a lot of people to delay a decision, but sooner or later they are going to make that decision, and then we're going to have a huge departure.

Also we have been building a situation over the years because of the professional—in my union's title, we get very aware of this. We have seen many studies where the class percentile, standing, has declined for Government hiring every year for the last 20. We're hiring engineers in the bottom 10 percent of graduating classes.

Right now, while the private economy is in bad shape, there are more higher status engineers available, but that won't last long when the private sector picks up.

One last aspect, last year through your efforts we were able to get a locality pay raise. Not everyone got that. A huge segment of Government caught in the pay gap box had been included in special pay raise. That's the only way we were able to hire and retain them, and they didn't get a pay raise last year. They were totally eliminated from it.

This year, if we're forced to make that choice one way or another, none of us will commit to you which way we fall, but we're going to build another big chunk into that future mass departure that's about to happen. If the economy continues to improve, it's not going to be that long. People will not wait forever for buyouts. They're going to make a decision, and I'm concerned, like my colleagues in the military, that even when you're downsizing the military force, you have to be recruiting new people, new career people, and we've got to have those people that are dedicating to a career, not to 2 years until the private economy improves.

Ms. NORTON. Well, indeed, it is very important that we continue, in discussing locality pay, to make sure that we don't allow those who oppose it to compare apples with oranges. The notion of what's happening in the economy today is really based on a short-term cyclical analysis.

The locality pay was not based on that. You've been trying to get locality pay for more than 20 years.

I'm going to—I don't have to go to vote on the Journal. That is one vote that I have not asked for yet. I'm going to ask Mrs. Morella before she goes if she has an opening statement and if she has any questions she would like to ask.

Mrs. MORELLA. Thank you. Thank you, Madam Chair. If I could choose which place to give up, too, I think I would join you in forfeiting that very important vote on the Journal.

I had come from a hearing on medical technology and how it would be affected by the health security plan, and I look forward to always working together with all of you. You are leaders, and we look to you for advice and counsel as we make these decisions.

I appreciate, Madam Chair, your holding this meeting on the budget proposal in such a timely manner. The views and recommendations of the Committee on Post Office and Civil Service, along with the supplemental views that came from the minority members, have clearly articulated that the proposed \$1.1 billion earmarked for Federal pay increases is grossly inadequate.

Though the budget cuts aren't as deep as the budget proposed for 1994, it's still abysmal in its adverse effect on achieving Federal pay comparability. Federal employees have waited patiently for the implementation of the Federal Employees Pay Comparability Act of 1990, and we have all gone through the idea that we saw the first installment, a battle that was won but not easily, and this sub-

committee was certainly on your side under your direction and leadership Madam Chair.

A thorough analysis of a series of marathon hearings resulted in some innovative solutions to retain the integrity of FEPCA. "There you go again," as a well-known political figure used to say. It's hard to comprehend why Federal employees must again carry the brunt of the budget deficit burden.

First, they were prevented from receiving true pay comparability. Then they're told that they will suffer reduction in force. Next there are rumors of a possible change in the retirement age, and there are further considerations of curtailing the employer contribution to the thrift savings plan which would affect retirement plans, among other considerations.

I hear from schizophrenic Federal employees and retirees—schizophrenic because of what they read in the newspaper on a daily basis and the rumors that fly—in terms of what will next happen, and certainly it all seems to be blatantly unfair to Federal employees.

At a time when the administration is seeking to reinvent Government, it must enlist the cooperation of its knowledgeable and seasoned employees to accomplish the mission. Demoralizing our public servants will only succeed in making the reinvention process longer and more arduous.

Madam Chair, FEPCA was possible because of bipartisan support. Keeping FEPCA intact and our Federal employees in good employment health also requires bipartisan support. I've always maintained that there must be an equitable and fair pay system between the public and private sectors and, as you know, I was a cosponsor of FEPCA because of these convictions.

I pledge my continued support to ensure fairness for our Federal employees. I look forward to actively working with you, Madam Chair, and working with the members of this panel and the other two panels that come before us.

It was very interesting, I know, that before I arrived you talked about the spinoff of the article that was in today's paper in terms of, if we did look to producing—I think 1.5 percent was the figure that was given to contracting out, we could finance FEPCA this coming year, and I hope that, although it's not our jurisdiction, that we have some input into what happens.

Thank you very much for the courtesy of letting me express my thoughts.

Ms. NORTON. If you have anything you would like to ask before you leave, feel free to go ahead.

Mrs. MORELLA. No; that's perfectly all right.

Ms. NORTON. Thank you very much, Ms. Morella. I appreciate that statement.

I was saying that there is a slippery slope thinking here going on about Federal—about locality pay. Employees have been trying to get locality pay for over 20 years. The gap we are talking about is not a cyclical gap that comes because of what has happened in the economy at a moment in time.

This gap is a structural gap that has not, in fact, succumbed to economic trends the way in which gaps usually do. What normally

happens is precisely because the cycle changes. You expect things like pay gaps to right themselves from cycle to cycle.

Now when you go for long periods of time and the gap widens, then what you have is not a market sensitive gap of a kind we see routinely in a country like ours. It is then that you have a structural problem that can be measured only by looking at long-term trends, and the long-term trend here shows a structural gap.

So we can't allow talks of attrition rate or talks of a bad economy to intrude on locality pay, because if that's what the problem was, you certainly wouldn't have gotten the last administration to agree to locality pay. It was because of irrefutable evidence that this gap has continued and never been overwhelmed by changes in the economy that you finally got people to understand on a bipartisan basis that we had something that the market from year to year would simply not correct.

OMB's analysis, of course, doesn't take that into account at all, and we will continue to hold them to the standard that produced locality pay, in the first place. If they want to argue that it ought to be changed or if it ought to be eliminated, then they have to argue on the same ground in which it was pressed and not change the subject. You got to meet that standard.

I want to ask right now, though, if you are aware of any agencies other than OPM that your members tell you may be preparing to initiate RIF's during fiscal year 1994. Have you heard any—sometimes you hear before members or even some in management or the administration.

Mr. STURDIVANT. Well, now DOD continues in its downsizing, and I've heard of some in the Navy, I think, as part of the downsizing.

Mr. SOMMERHAUSER. Large numbers of RIF's—we have the fortunate circumstance of having buyouts available, but buyouts aren't the total panacea. Even there, we are still going through RIF's on a regular basis at DOD.

NASA is in the process of preparing, if they cannot get buyouts, to immediately launch into RIF's. Those are their budget cuts. Interior, I know, is preparing a RIF of 400 to 800 people in Denver alone. The work force there is only 2,000—a huge number of people.

Ms. NORTON. I don't know whether these RIF's—I'm sorry, in Denver was it—what agency?

Mr. SOMMERHAUSER. Interior.

Ms. NORTON. These then look like RIF's that come from the ceilings that are in place, the budget figures that are in place in these agencies. If we get buyout authority, we would expect that, of course, there would be buyouts.

We already have the problem that we have never been assured 100 percent that buyouts would be used 100 percent. One can almost understand, even though DOD has an excellent record, that there might have been some RIF's necessary there when you have the greatest downsizing.

What is most disturbing to the committee, at least before it looked as though we were beginning to move forward to address some of the problems that have kept us from completing the buyout legislation—what is most disturbing is the notion that there would

be some agencies who have done their downsizing by buyouts, and the majority of the Government which did not. That is absolutely and totally unacceptable and discriminatory.

DOD, CIA, a number of other agencies, got through this process. Nobody in the Senate talked about pay-go and nobody in the Senate asked how are you going to pay for it. In the House we have no preferred agencies, and what would be particularly outrageous would be to have a set of agencies, including, by the way, some of the legislative agencies, who were allowed to buy out their employees and mitigate disruption while the rest of the Government, and most notably the domestic civilian employees, were left with RIF's. That is something that this member does not intend to let happen easily.

I want to ask you questions about retirement fund payments, because it looks as though the Government is getting serious for the first time about what is admittedly a very serious underfunded, indeed unfunded, pension liability for Federal retirees.

An OMB official testified last fall before us that the civil service retirement fund was underfunded by about \$600 billion. I wonder if you believe that this situation poses a threat to future retirees who you now represent, at least.

Mr. SOMMERHAUSER. Without a doubt, it poses a threat. The Federal employees are mystified, to say the least. They have never failed to pay their share. They have always paid their share.

Ms. NORTON. Well, this would indicate that on both ends the "share" that's necessary to fund the liability hasn't been paid by any of the parties.

Mr. TOBIAS. We see the biggest problem with the underfunding of the civil service retirement system, Madam Chair, as the fact that it's exactly what Congress intended when it passed the FERS system in 1982. We don't have new people coming into that, people to fund the liabilities that are created over time and to take care of the unfunded portion of the liability that existed when FERS was created.

FERS was created for the purpose, for the specific purpose, of getting out from under that unfunded liability. So for OMB to now come back and say, oh, my goodness, oh, my soul, we have to take care of a problem we've been ignoring since 1982, is disingenuous at best. The system will go out of existence over time.

That's why we created FERS. That's why we mandated the inclusion or mandated that every new employee would sign up to take part in the FERS system. So that unfunded liability that OMB is raising—I think it's a real red herring, because, obviously, once all of those who participate in the CSRS system resign—or, excuse me, retire and die, there will no longer be an unfunded liability.

So this—what we're seeing is a fault in the system that was anticipated by Congress, and to now raise flags and be warning, I think, is to miss the point of why we created FERS.

Mr. SULLIVAN. Yet, Madam Chair, it's a red herring that could be very, very damaging to CSRS employees.

This year's budget ups the agencies' contribution to 19 percent from the 7 percent to cover the full cost, which they're saying is 26 percent of salary, but I can see that not too far down the road there will be a proposal that, geez, for so many years it's been 7

percent employer contribution and 7 percent employee contribution, and now the full cost is 26 percent. So let's make it 13 percent for the employee and 13 percent for the employer and keep it equal.

So I agree that it's a red herring, and it's also a red herring that can be very damaging if Congress is trying merely to correct the political pressure that's being put on it because of the problem of unfunded liabilities in the private sector.

Mr. TOBIAS. That 19 percent that my colleague just mentioned is the cost of hiring a new employee, young employee, on the rolls and having that person have a pension funded until the end of time. It's a number which is totally inaccurate, given the age of the work force that exists today.

Ms. NORTON. Well, your answers are interesting. You don't think that there is then any need to fund the unfunded pension liability?

Mr. TOBIAS. The funding—

Ms. NORTON. By whomever, even if wasn't you. You don't believe the Government needs to do it.

Mr. TOBIAS. No; the whole idea of an unfunded liability that's created in the private sector to ensure that employers who were thinking about going out of business would have enough money over time to pay retiree benefits—We don't anticipate that the Federal Government is going to go out of business.

So talking about an unfunded liability for a Federal pension plan is inaccurate.

Ms. NORTON. Well, now—But what the administration is contending is that the true cost of the CSRS retirements is about 25 percent, and of course, what they're taking in is something less than—or is about 14 percent, actually. Their argument is essentially that the agencies and the employees are not doing what the bargain says you do, which is you pay for the cost of your retirement by dividing it in this way, and that you're not doing that. You're only paying for 14 percent of the cost, which leaves almost an equal amount to be picked up by whom? By whom?

Mr. TOBIAS. Well, first of all, the first question is how did we get this number? How did we get the \$600 million number? There's a great deal of disagreement over how you actuarially compute that number over time, but even assuming it's \$600 billion unfunded, the cost to the Government is no more or no less the amount of money that's paid every single year. That's the cost to the Government.

It's not some calculated number into the future. Second, I would say that this—

Ms. NORTON. Now wait a minute. They say that the 25 percent is necessary to pay for the cost of the pensions. So I would assume that the \$600 billion has to do with those presently in CSRS.

Mr. TOBIAS. That's a projection. That number is a projection if every single person lived until their expected age and what the total cost to the Government would be under those circumstances. I think it's an incorrect number. I think it's an arbitrarily inflated number, and I think it's based on a failure of the Federal Government for many, many years prior to 1983 to fund the pension program.

In the past, the way the program was funded is that Federal employees paid into the system, and the Government didn't.

Mr. SOMMERHAUSER. That's right.

Mr. TOBIAS. So now, here we are 20, 30, 40, 50 years later, and the question is, if, in fact, you're going to give cognizance to that \$600 billion, how should it be funded? Should the agencies fund that money out of current—out of their current budget allocation or not?

I think—I think the answer is not. If, in fact, OMB is concerned about this \$600 billion, and I think they're not really concerned about it, but if they are seriously concerned about it, then deal with the issue not in terms of current budget allocations but from an appropriation.

If they came to Congress and said, let's make an appropriation of \$600 billion, they would be laughed out of the House, because all it would be would be a transfer of funds from one fund to another with no real change in outgo or income.

So I question the seriousness of the OMB position.

Mr. SOMMERHAUSER. Not only do we believe that the assumption includes that every person in the system now will live their full expected lifetime, but that every person in the system will retire. We know that, other than the current box of the economy that we are in, that a lot of people in the CSRS do not go on to retire.

Mr. STURDIVANT. Let me just jump in here, and I'm not going to go down the road with how many percent or how long we're going to live and that type of thing. Let's look at the politics of it. People don't do things, people don't say things in this town if it does not have some bearing on politics.

Let's go back in time. When that story about the so called unfunded liability hit the papers, it was approximately one day when the House of Representatives was being asked to vote on the Penny-Casey bill. That would have reduced Federal retirement benefits.

So I would submit that all of this talk about the so-called unfunded liability is not really talk about trying to run the Government in a good business practices manner, but is simply part of the political strategy to raise these questions in order to develop political support to get votes for some of these very progressive proposals that not only came up over here in the House but came up over in the Senate under Kerry-Brown.

Even if you had the \$600 billion, where would you put it? You would put it back in some other fund that the Government controls and then borrow from it.

Ms. NORTON. Yes. Well, they don't want \$600 billion in a lump sum. They want, obviously, to increase the amount that agencies would put in and the amount that employees would put in over time.

You raise important points, and the committee will certainly look into their figures. Their figures may be actuarially sound in light of private sector standards. Your notion about who was contributing, in the first place, does, seems to me, have to be taken into account in judging just how unfunded this pension liability is.

I want to thank each and every one of you for testimony that we have found extremely useful.

I'd like to call panel No. 2, Mr. Bruce Moyer, Ms. Helene Benson, Ms. Carol Bonosaro. I understand that Ms. Betsy Beckman is here

for the Professional Managers Association for Ms. Benson. You may proceed in any order you desire.

STATEMENT OF BRUCE L. MOYER, EXECUTIVE DIRECTOR, FEDERAL MANAGERS ASSOCIATION, ACCOMPANIED BY BETSY BECKMAN, EXECUTIVE DIRECTOR, PROFESSIONAL MANAGERS ASSOCIATION, AND CAROL BONOSARO, PRESIDENT, SENIOR EXECUTIVES ASSOCIATION

Mr. MOYER. Thank you. I appreciate the opportunity to go first, Madam Chair. I'm Bruce Moyer, the executive director of the Federal Managers Association. I would ask that our statement be accepted into the record in order to permit me to very briefly, Madam Chair, summarize our comments.

Ms. NORTON. So ordered. May I ask that each of you simply summarize your comments, and we will get your whole statement into the record, as indicated.

Mr. MOYER. First of all, Madam Chair, I'd like to also extend our appreciation to you for your leadership and dedication, particularly at this time with respect to the issue of buyouts, and the diligence of you and your staff with regard to this issue and the achievement of an expeditious resolution of this very important question.

Our testimony this morning focuses on three points. The first concerns the Presidential proposal itself to reduce the pay of Federal workers in fiscal year 1995. We certainly associate ourselves with the sentiments of our colleagues who preceded us in this hearing this morning in indicating FMA's strong opposition to the proposal as presented by this administration.

Our members are managers and supervisors throughout the Federal Government. They are taxpaying American citizens first and public servants second. We are committed to doing everything we can to make this Government work better and cost less.

It's because of exactly the fact that if this Government is to move to a smaller shape that it is extremely important that that smaller, more highly skilled and efficient work force be one in which the Government has been able to attract and retain individuals with competitive salaries.

You are absolutely right, Madam Chair, in indicating that this problem is a structural one, that given the size of the Federal Government as the Nation's largest employer—in fact, the largest employer in the free world—the degree to which it can steer its course in a manner that responds effectively and speedily to changes in the economic climate and changes with regard to recruitment patterns, commands that it close that gap assiduously and continually now, so as to not put itself further behind the curve 2 or 3 years from now when we find private enterprise being able to attract into newly created jobs workers that the Federal Government finds it cannot either retain or recruit because of a gap that is not only at the 30-percent level now, but what may even be a wider amount in the future.

We have indicated in our testimony that the impact of the pay cuts proposed by the administration would have a devastating impact upon current Federal workers over the next 5 years. We estimate the average worker to lose almost \$17,000 in pay as compared to what FEPCA assumptions would contemplate, and that

for Federal supervisors and managers to lose between \$12,400 and nearly \$39,000 over the next 5 years, if the President's budget assumptions are adopted.

Second, we would like to express our strong support for the proposals that our friends appearing here on the first panel proposed to you with regard to contracting out. This matter of contracting out and its ineffectiveness on so many occasions is not an issue that is of concern only to the Federal employee unions.

Federal management associations, including FMA, continually express their concern over the wisdom and effectiveness of contracting out as it relates not merely to job security but to the bottom line in assuring that this Federal Government costs less than what it otherwise would when it is burdened with an inefficient process like contracting out. So that we would add our support to your efforts with respect to your leadership in this Congress, Madam Chair, in pursuing the reduction of contracting out as a long-term solution to keeping pay reform on track.

Finally, Madam Chair, a third point deals with an item that has not been raised by the first panel, and that deals with the matter of locality pay and its relationship to interim geographic adjustments.

As you know, last year Federal workers in New York, Los Angeles, and San Francisco did not receive a pay adjustment or a locality pay adjustment, because it would not have exceeded the 8-percent interim geographic adjustment that was extended to them shortly after the enactment of FEPCA.

Clearly, we believe FEPCA did not intend for workers in these high cost areas to go without a pay raise in 1994 or subsequent years. We would not support a scenario which would require workers in those areas to go another year without a pay raise.

That completes my comments this morning, Madam Chair, and we would certainly be happy to answer any questions that you may have.

Ms. NORTON. Thank you very much, Mr. Moyer.

[The prepared statement of Mr. Moyer follows:]

PREPARED STATEMENT OF BRUCE L. MOYER, EXECUTIVE DIRECTOR, FEDERAL MANAGERS ASSOCIATION

Good morning Madam Chairwoman and members of the Subcommittee: I am Bruce Moyer, Executive Director of the Federal Managers Association. I would like to thank you, Madam Chairwoman, for holding this hearing today and for giving me the opportunity to express the views of the Federal Managers Association on proposals contained in President Clinton's fiscal year 1995 budget and how they would effect Federal workers.

FMA is the largest professional association of executives, managers and supervisors in the Federal government. Our members are taxpaying American citizens first and public servants second. We are committed to doing everything we can to make our government work better and cost less.

As citizens and Federal managers we are concerned first and foremost by the President's proposal to significantly reduce pay of Federal workers. As you know, the President proposes to provide only \$1.1 billion for Federal employee pay adjustment next year. This is the amount necessary to provide an across the board pay adjustments of just 1.6 percent. Under the process set forth by the Federal Employment Pay Comparability Act of 1990 (Pub. L. 101-509), Federal workers are currently scheduled to receive 2.6-percent national pay adjustment and the second installment of locality pay adjustments, which are expected to range between 1.5 and 3.2 percent.

As the tables and charts I have included with FMA's written testimony indicate, the President's proposed pay reduction would have a serious impact on the income of the average Federal worker and on Federal managers. In 1993, the average Federal worker earned about \$38,000 per year. Under the assumptions contained in the President's fiscal year 1995 budget, the average worker could expect to lose almost \$17,000 in pay over the next five years. Federal supervisors and managers in grades GS-9 Step 1 through GS-15 step 10 could expect to lose between \$12,400 and \$38,700 over the next five years if the President's budget assumptions are adopted.

On page 166 of the "Budget of the United States Government" the Administration states: "the Administration plans to consult with employee organizations and other interested parties on the best approach to distributing pay increases; i.e., a national pay raise, locality pay, or some combination of the two."

This statement is a reflection of the much-improved relations between the Administration and employee groups. We thank you, Madam Chairwoman, for your role in encouraging the Administration to work more closely with FMA. In a recent meeting, FMA National President Michael Styles commended the Vice President for his exceptional efforts to reach out to FMA and other management groups and include us in the decision-making process.

With respect to the 1995 pay question, FMA supports the payment of both the national and locality pay adjustments called for by FEPCA. As many will recall, FEPCA was enacted in response to a crisis in Federal pay which developed as a result of consistent use of presidential authority to set alternative and lower pay adjustments. The 1993 Annual Report of the President's Pay Agent found Federal white collar pay trailing comparable non-Federal pay by a minimum of 21.2 percent and by as much as 37.4 percent. Before locality pay began this year, Federal workers had been waiting since 1978 for their government to honor its commitment to provide comparable pay for comparable work. Finally, FEPCA moved in the right direction toward addressing inadequate Federal pay.

Now is not the time to derail the long-awaited process of closing the gap between Federal and non-Federal pay. We are in the process of reducing the size of the Federal workforce by 252,000 positions. To borrow a phrase from David Osborne's book "Reinventing Government," we are moving from a government that steers more and rows less. Reducing Federal pay is inconsistent with the goal of producing a smaller, more highly skilled and efficient government. In order to attract and retain the individuals who will lead this Nation in the next century, the government must offer competitive salaries.

The proposal put forth by AFGE, NTEU, and NFFE, to cut contracting out by 3 percent to fund national and locality pay adjustments next year is good idea. I understand it may already be too late to make this trade-off for 1995. However, the Administration has made its intentions very clear on the issue of future pay adjustments for Federal workers. I urge the Subcommittee to explore the option of reducing contracting-out as a long term solution to keeping locality pay on track. FMA would be willing to work with the Subcommittee on looking into this option.

I would like to thank you, Madam Chairwoman for all that you and the Subcommittee have done to keep locality pay on track. I recognize and appreciate the constraints under which you must operate. If we are forced to live with the cuts contained in the proposed fiscal year 1995 budget, then FMA strongly supports keeping locality pay on track. In supporting locality pay, however, FMA believes that some provision must be made to insure that workers in New York, Los Angeles and San Francisco receive a pay adjustment in 1995. As you know, workers in these areas are not getting a pay raise this year because the 2.2 percent national pay adjustment was eliminated and their locality pay adjustments do not exceed the 8 percent interim geographic adjustments extended to them shortly after the enactment of FEPCA. Clearly, the 1990 pay reform law did not intend for workers in these high cost areas to go without a pay raise in 1994. FMA would not support a scenario which would require workers in New York, Los Angeles, and San Francisco to go another year without a pay raise.

Included with our written testimony are letters from FMA chapter presidents in areas currently receiving interim geographic adjustments detailing the effects of this year's setback in closing the Federal pay gap on the workers they manage.

Our second concern relates to how the President's fiscal year 1995 Budget plan deals with the extension of buy-out authority to non-DOD civilian personnel. I would like to briefly state that FMA strongly supports the House-passed version of H.R. 3345 and comments the subcommittee, the full committee and the Administration for their hard effort in pushing for a government-wide buy-out program. FMA continues to urge members of the other body to recede to the House position on H.R. 3345 and allow meaningful buy-out authority to be extended immediately so that agencies may avoid RIFs this year.

Madam Chairwoman, this concludes my prepared remarks. At this time I would be happy to answer any questions you may have.

Effects of fiscal year 1995 budget proposals on Federal employee pay:

CURRENT LAW—AVERAGE FEDERAL EMPLOYEE

Year	Combined pay adjustment (percent)	Previous year salary	Increase over previous year	Current year salary
1994	3.96	\$37,718	\$1,494	\$39,212
1995	3.80	39,212	1,490	40,702
1996	5.20	40,702	2,116	42,818
1997	5.10	42,818	2,184	45,002
1998	5.20	45,002	2,340	47,342
1999	5.40	47,342	2,556	49,898

FISCAL YEAR 1995 BUDGET ASSUMPTIONS

Year	Proposed pay adjustment (percent)	Previous year salary	Increase over previous year	Current year salary	Loss from current law base-line
1994	3.96	\$37,718	\$1,494	\$39,212	0
1995	1.60	39,212	627	39,839	863
1996	2.20	39,839	876	40,715	2,103
1997	2.50	40,715	1,018	41,733	3,269
1998	2.50	41,733	1,043	42,777	4,565
1999	2.50	42,777	1,069	43,846	6,052
5-year loss					16,851

CURRENT LAW—GS-9 STEP 1

Year	Combined pay adjustment (percent)	Previous year salary	Increase over previous year	Current year salary
1994	3.96	\$27,789	\$1,100	\$28,889
1995	3.80	28,889	1,098	29,987
1996	5.20	29,987	1,559	31,547
1997	5.10	31,547	1,609	33,155
1998	5.20	33,155	1,724	34,880
1999	5.40	34,880	1,883	36,763

FISCAL YEAR 1995 BUDGET ASSUMPTIONS

Year	Proposed pay adjustment (percent)	Previous year salary	Increase over previous year	Current year salary	Loss from current law base-line
1994	3.96	\$27,789	\$1,100	\$28,889	0
1995	1.60	28,889	462	29,352	\$636
1996	2.20	29,352	646	29,997	1,549
1997	2.50	29,997	750	30,747	2,408
1998	2.50	30,747	769	31,516	3,364
1999	2.50	31,516	788	32,304	4,459
5-year loss					12,415

CURRENT LAW—GS-15 STEP 10

Year	Combined pay adjustment (percent)	Previous year salary	Increase over previous year	Current year salary
1994	3.96	\$86,589	\$3,429	\$90,018
1995	3.80	90,018	3,421	93,439
1996	5.20	93,439	4,859	98,297

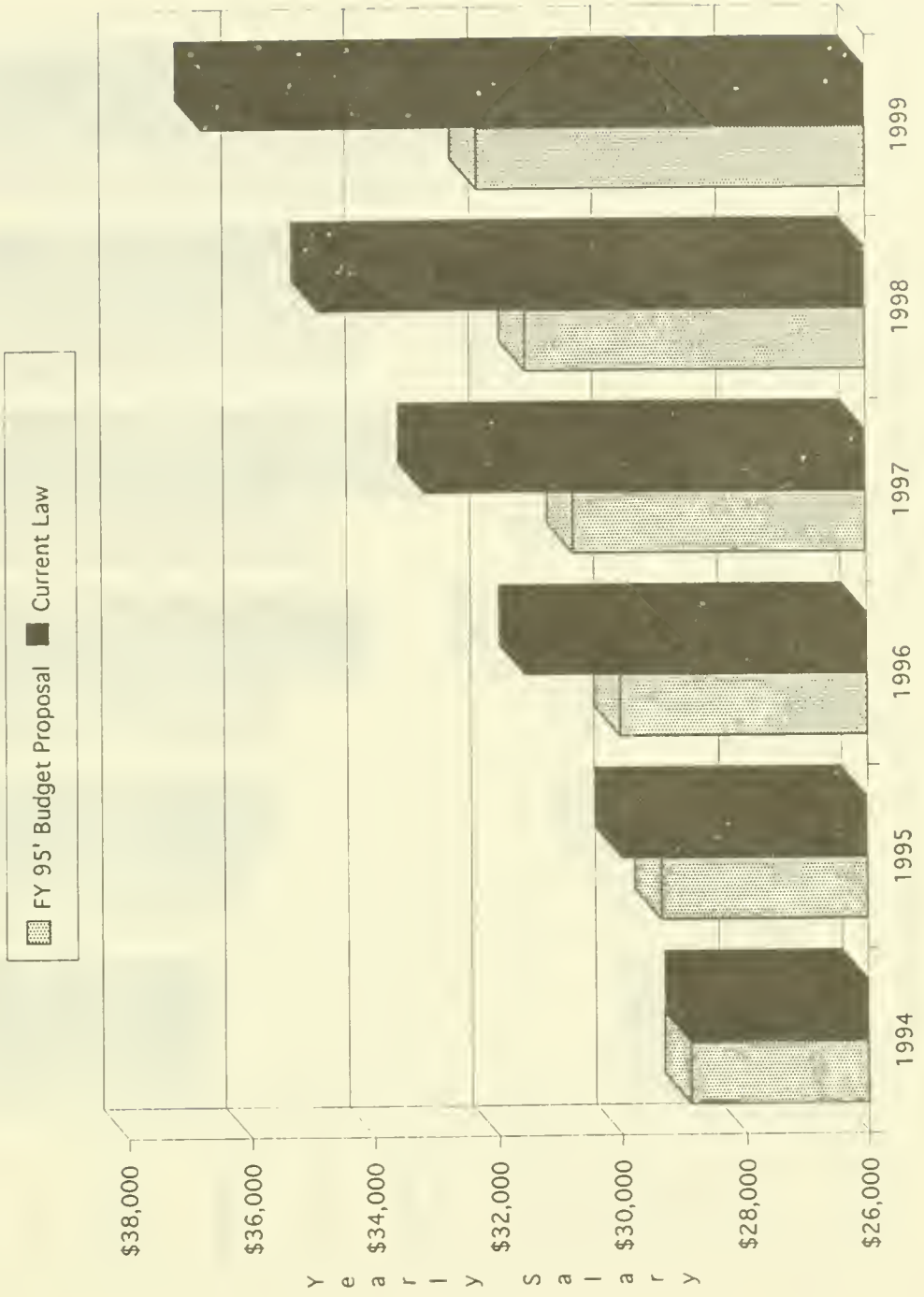
CURRENT LAW—GS-15 STEP 10—Continued

Year	Combined pay adjustment (percent)	Previous year salary	Increase over previous year	Current year salary
1997	5.10	98,297	5,013	103,311
1998	5.20	103,311	5,372	108,683
1999	5.40	108,683	5,869	114,552

FISCAL YEAR 1995 BUDGET ASSUMPTIONS

Year	Proposed pay adjustment (percent)	Previous year salary	Increase over previous year	Current year salary	Loss from cur- rent law base- line
1994	3.96	\$86,589	\$3,429	\$90,018	0
1995	1.60	90,018	1,440	91,458	\$1,980
1996	2.20	91,458	2,012	93,470	4,827
1997	2.50	93,470	2,337	95,807	7,504
1998	2.50	95,807	2,395	98,202	10,481
1999	2.50	98,202	2,455	100,657	13,894
5 year loss					38,686

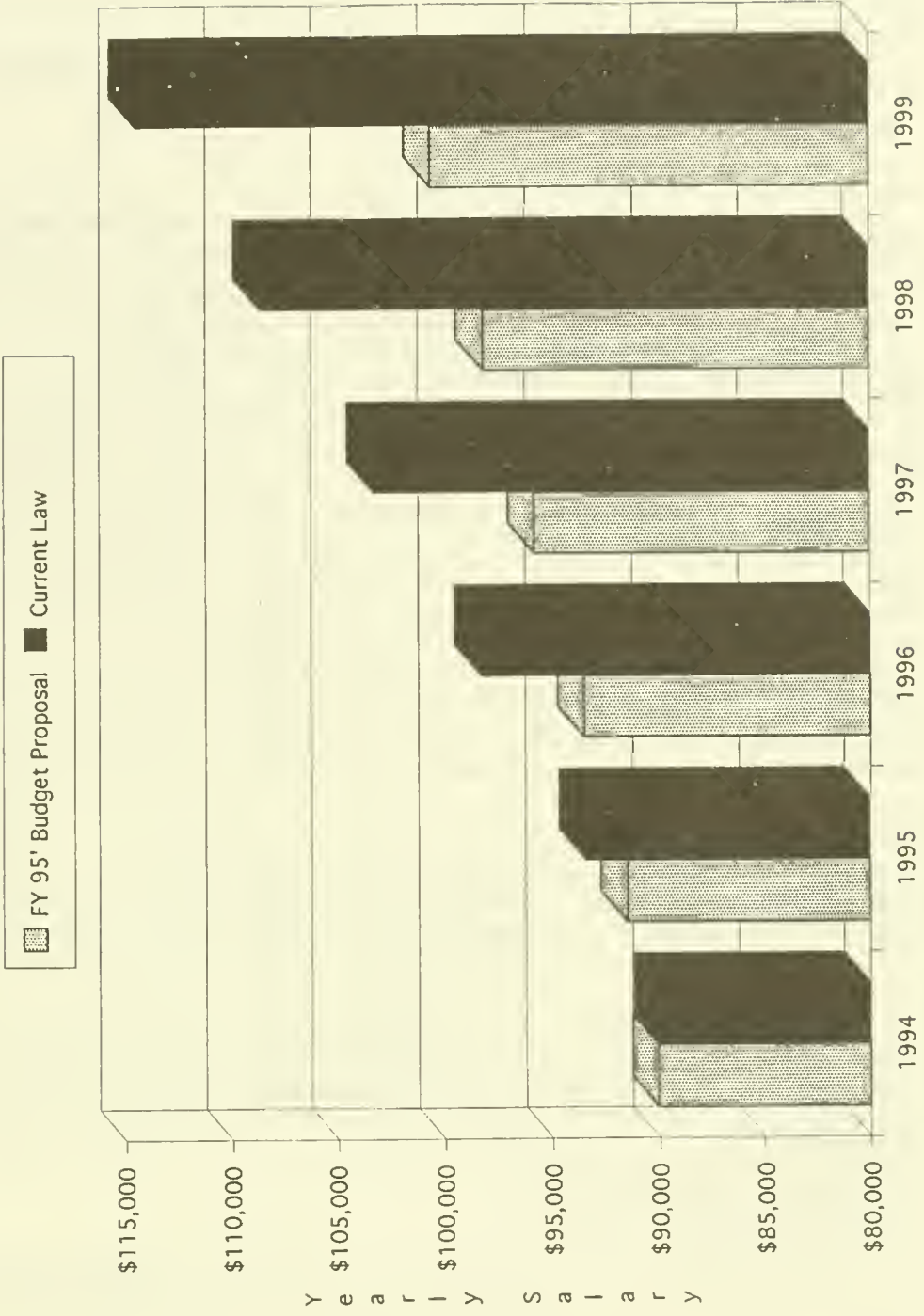
5 Year Effect Of FY 95' Budget On GS-9 Step 1 Compensation



5 Year Effect Of FY 95' Budget On Average Federal Employee's Compensation



5 Year Effect Of FY 95' Budget on GS-15 Step 10 Compensation



Hon. ELEANOR HOLMES NORTON,
Chair, House Post Office and Civil Service, Subcommittee on Compensation and Employee Benefits, Washington, DC.

DEAR MADAM CHAIRWOMAN: As President of Federal Managers Association Chapter 190, I am writing to express my concerns about the effects of pay cuts contained in the President's FY 1995 budget proposal on the workers I manage.

As you know, the President's budget provides only enough funding in 1995 for an across the board pay adjustment of 1.6%. This represents a significant reduction from the scheduled 2.6% national pay adjustment and the second installment of locality pay. These cuts would be particularly difficult for workers in the New York Metropolitan area because they would come on top of reductions in pay this year. Due to the combination of the elimination of the national pay adjustment and a locality pay adjustment which does not exceed the 8% interim geographic adjustment we are receiving, workers in our area did not receive a pay raise this year.

In addition to the other pay cuts our people have taken this year, the New York Metropolitan area is about to lose another 12% pay in June 1994. We were part of a five year pay demonstration project that was funded through 1994. The project was originally designed to retain skilled workers. Air traffic Controllers and Supervisors, in hard to staff areas such as New York, Chicago, Los Angeles, and San Francisco. It also encouraged our fellow workers that resided outside of these areas to bid into these facilities and allowed us to reduce the overall usage of expensive overtime costs. Many of our senior employees who were considering retirement, decided to remain with us and assist us in the training of our new younger workforce. Overall, the pay demonstration project proved to be very successful for our area. I am not very optimistic for future staffing recruitment for our area. As it is well known how difficult it is to live in these high cost of living areas.

Another form of pay cut has found its way into the federal workers salary. On December 8, 1993, the FLRA found our Performance Management System, our performance rating system, illegal. This system allowed us to reward our employees with performance awards. It added a great deal of incentive in their everyday performance. We no longer will use this form of rating system which results in less compensation to our employees.

The President's budget states that it plans to consult with organizations on whether to use the \$1.1 billion for locality pay or national raises. I would like to see the pay adjustments scheduled under current law take effect. The Federal Employees Pay Comparability Act (FEPCA) was enacted in 1990 in response to the pay crisis which developed from the consistent use of Presidential authority to set alternative lower pay adjustments. Past mistakes should not be repeated, the 1990 pay law should be honored.

If we are forced to live with the President's proposed cuts, I wholeheartedly endorse the locality pay program and will support efforts to keep it on track. However, FEPCA never envisioned the pay cuts which have been enacted at the request of the Administration. An effort should be made to insure that locality pay stays on track and that workers in the New York Metropolitan area receive some sort of pay adjustment.

Thank you for your consideration of my concerns and for all the work you have done on behalf of Federal employees.

With kindest regards, I am

Sincerely yours,

RONALD REGAN,
President, FMA Chapter 190.

Hon. ELEANOR HOLMES, NORTON,
Chair, House Post Office and Civil Service, Subcommittee on Compensation and Employee Benefits, Washington, DC.

DEAR MADAM CHAIRWOMAN: As President of Federal Managers Association Chapter 20, I am writing to express my concerns about the effect of pay cuts contained in the President's FY 1995 budget proposal on the workers that I manage.

These cuts would be particularly difficult for workers in the Oakland/SF area because they would come on top of reductions in pay this year. Workers in our area DID NOT receive a pay raise this year.

I feel that if we are forced to live with the President's proposed cuts, I wholeheartedly endorse the locality pay program and will support efforts to keep in on track. After all we have been cut enough and squeezing the nickel until it screams can only go so far. However, FEPCA never envisioned the pay cuts which have been enacted at the request of the Administration. An effort should be made to insure

that locality pay stays on track and that the workers in the Oakland Califf Bay area receive some sort of pay adjustment.

Thank you for your kind consideration of my concerns and for all the work you have done on behalf of Federal employees.

Sincerely yours,

RAYLENE H. HAND,
President, FMA Chapter 26.

Hon. ELEANOR HOLMES NORTON,
Chair, House Post Office and Civil Service, Subcommittee on Compensation and Employee Benefits, Washington, DC.

DEAR MADAM CHAIRWOMAN: As President of Federal Managers Association Chapter 261, I am writing to express my concerns about the effects of pay cuts contained in the President's FY 1995 budget.

The President's budget provides for an across the board pay adjustment of 1.6%. This is a dramatic reduction from the 2.6% national pay adjustment and the second installment due under locality pay. These cuts will be difficult to all Federal workers but particularly those in Central and Northern New Jersey who are included in the New York geographic market. Because of the combination of the elimination of the national pay adjustment and a locality pay adjustment in our geographic area, workers in many parts of New Jersey and other high cost localities did not get a pay raise this year.

The fight for the Federal Employees Pay Comparability Act was long and hard. It was designed to take the politics and bureaucracy out of Federal pay and benefits yet, after only being in effect a very short time, the law is being virtually ignored. The FEPCA should be honored in mine and my co-workers view. Not only do we have employees living in a high cost area for housing and other items, but several of our employees must commute to work in our high cost area. Accordingly, they incur very substantial transportation costs which in the long run, don't cover the wear and tear on cars, cost of fuel, tolls, parking, and commuting time, let alone the strain of a long daily trip.

I have been a Federal workers for 22 years. During this time, and especially in the last decade, we have been asked time and time again to bite the bullet. We are being asked to do this more than ever with government downsizing, bills to reduce COLAs for retirees, raising retirement ages, smaller contributions to Thrift Savings Plans and other sacrifices. And now we are asked again to take a pay cut while living and commutation costs continue to rise. In reality, the President's proposal asks us not to take a reduction of a scheduled pay increase, it asks us to take a pay cut. This is because the Economic Cost Index (ECI) is greater than the general schedule pay raise in FY 1994 as well as for FY 1995.

I urge you to consider the sacrifices Federal workers have been making for years and salvage the Federal Employees Pay Comparability Act by strictly adhering to its intent.

Sincerely Yours,

JOHN KAFFENBERG,
President, FMA Chapter 261.

Ms. NORTON. Ms. Beckman.

Ms. BECKMAN. Thank you very much for the opportunity to be here today. It's kind of difficult to really go in and touch on issues that are different than the previous folks who have spoken before me, but I guess we have to take a look at the fact that we are constantly compared with the private sector in how we are to work smarter and do more with less, and to accomplish a lot of things in our government jobs.

One of the things that, I think, is extremely essential is that Government employees are paid adequately for the work that they have done. It seems in the past that we have always come before you begging for the opportunity to get raises that are equitable for the work that we are doing in our respective jobs.

We would appreciate it if you would take forward all of our comments, combine them into making the pay salary gap that we have for locality pay and for the economic cost index equal to everything

that is being given in the private sector, and taking a look at retirement benefits and everything else in conjunction with that.

Thank you very much.

Ms. NORTON. Thank you very much, Ms. Beckman.

[The prepared statement of Ms. Beckman follows:]

PREPARED STATEMENT OF BETSY BECKMAN, EXECUTIVE DIRECTOR OF THE
PROFESSIONAL MANAGERS ASSOCIATION

I am Betsy Beckman, Executive Director of the Professional Managers Association. I am here today representing the interest of all the members of the Association and to express to you the concern we have regarding the continued erosion of the Federal Employee's benefits and pay.

Who ever coined the phrase, "do more with less" had no idea, I am sure, of just how accurate that phrase has become. It appears from the proposed meager 1.6-percent increase in federal salaries that this statement applied not only to reductions in the number of Federal managers, but now with regard to pay. While this sum is greater than a freeze and greater than no pay increase at all, it is still inadequate.

As I reviewed past testimony preparing for this opportunity to speak before you, it appeared we have for years, had to beg not to be the sacrificial lamb as each administration attempted to balance the budget of this great country of ours. Each time we appear before you we have talked about our willingness to do our part, make sacrifices, accept reductions in our post retirement benefits, manage more people, do more work, provide better customer service, and on and on and on. Let's make this budget cycle and those to come, ones in which we do receive just compensation for our hard work.

We have continually been compared to the private sector on how we should work smarter, manage greater numbers of employees more efficiently. We, the Professional Managers Association, believe it is time that we are paid comparably as well. It is the Federal work force that keeps this country running. It is also this same federal work force that has families to support, college tuition to pay, we are expected to place food on our tables and a roof over our heads and we continue to be expected to do this with less as well.

Our executives, legislators and judiciary bodies have not fallen victim to the continued demoralizing attacks on their benefits as we the mid-level Federal managers have. Failure to pass legislation that will provide adequate compensation to those that remain on the job, those of us who are career employees—too young to retire and who have invested too many years into our Federal career to quit—will only exacerbate the very low morale that exists within the rank and file Government employees today.

Administrations, including the current one, seem to believe they will gain public support by making the Federal employee the victim of meager pay increases and slashing benefits and Federal jobs. There comes a point at which these minimal increases and the numerous reductions, must stop.

We are fast approaching the point in which 50 percent of the Federal work force will be covered under the Federal Employees Retirement System [FERS]. We are extremely concerned that the restructuring of agencies being required to track the Civil Service Retirement System [CSRS] cost by moving funds for Government contributions into each agency will, in itself, not be cost effective due to extensive changes in accounting processes. While the true cost to agencies will not increase, many activities associated with cost/benefit analysis ratios would no longer be a constant in determining the costs/benefits associated with contracting out. These numbers, as the number of CSRS employees decline, would continually change and become their own set of accounting and contracting nightmares, especially as they apply to long term contracts and activities. We are also very concerned that many of our CSRS employees will fall victim to acts of age discrimination in hiring, work activities, and opportunities. Let's leave this as it is. It's not broke * * * so let's not fix it!

The time has come to encourage Federal employees, not discourage them. If we as a government are to move forward and change the way we do business by retraining our people to do other work and encourage them to do more with less, then it is time that the Federal employees are treated with respect and equitably compensated so that true comparisons with our industry counterparts can be made.

Thank you for this opportunity and your support!

Ms. NORTON. Ms. Bonosaro.

Ms. BONOSARO. I want to thank you not only for the opportunity to testify today but for the subcommittee's support for the inclusion of the executive corps in locality pay. That was a very important decision that was made this year, and I think your support was, obviously, critical in that decision. So we thank you.

I'm sure that you feel like Sisyphus and the rock here as we annually go through this exercise, but the Senior Executives Association opposes as well the administration's proposal to underfund Federal employee comparability and locality pay adjustments for fiscal year 1995.

We oppose targeting Federal employee pay adjustments for two reasons. First, the pay adjustment systems, as you know, were carefully crafted to close the gap between the public and private sectors, and unraveling those systems is only going to create a substantially increased pay gap in the future, one which Congress and the administration will be required to address.

None of us wants to see a repeat of the acrimonious public debate with my good friend, Ralph Nader, in 1988 and 1989. We need to remind ourselves that that debate was necessitated by a series of similar decisions in prior years to bypass pay adjustments.

Second, the pay gap still exists, and it continues to increase at each step up the Federal career ladder. The association contracted with the Hay Group last year to examine compensation of Senior Executive Service positions with that of comparable positions in private industry. We did that because the Senior Executive Service has seldom been included in the routine examinations of Federal salary gaps.

This was a rather rigorous comparison, because we wanted to be assured that we were, in fact, comparing the same jobs as we were by virtue of looking at Hay's job content points as a common denominator. We wanted to be certain that we had a very representative sample, which we did.

Our results were that average SES total cash compensation ranged from 51 to 79 percent of that of average industry total cash compensation for jobs of the same difficulty. What that meant was that SES total compensation for these positions would have to be increased from between 27 and 96 percent to attain comparability with private industry.

We are now having Hay conduct and complete additional comparisons that will include the value of benefits. We are reviewing preliminary results, and as the data become available, we'll be pleased to provide them to the subcommittee. I think, for the present, however, the Hay study has demonstrated in its results the breadth of the pay gap with private industry and, I think, makes a powerful argument for not once again delaying or reducing a pay adjustment that will set us back to the "teabag revolution" and all of the acrimonious debate that occurred in the late eighties before we moved into a system that would make regular pay adjustments on the basis of solid data.

I would be pleased to respond to any questions.

[The prepared statement of Ms. Bonosaro follows:]

PREPARED STATEMENT OF CAROL BONOSARO, PRESIDENT, SENIOR EXECUTIVES
ASSOCIATION

Thank you for the opportunity to testify before the Subcommittee today. The Senior Executives Association opposes the Administration's proposal to underfund federal employee comparability and locality pay adjustments in fiscal year 1995. While we appreciate the appropriate and substantial interest of the Administration and the Congress in reducing the budget deficit, we oppose targeting federal employee pay adjustments for that purpose for two reasons.

First, the pay adjustment systems were carefully considered to close the substantial gap between the public and private sectors, and to do so in a measured manner and on the basis of comparative data. Unraveling these systems will only create a substantially increased pay gap in the future, a gap which Congress and the Administration will be required to address if federal service is to attract and retain the talented, skilled personnel which will be critical to staff a substantially reduced workforce.

Second, the pay gap still exists, and it continues to increase at each step up the federal career ladder. While many view career executives as very well paid, they are, in fact dramatically underpaid in comparison to their private sector counterparts.

The Senior Executives Association [SEA] contracted with the Hay Group in 1993 to conduct a study comparing compensation of SES positions with that of comparable positions in private industry. A sample of SES positions (benchmarks) were selected (across a range of agencies, SES pay rates, and functions) from Hay's data bases of SES evaluated positions. Hay's job content evaluation points served as the basis for making compensation comparisons to the marketplace for 1992. That is, using Hay job content points as a common denominator, SES positions were compared to positions which Hay has evaluated in a wide variety of industrial organizations and service industries, as well as in some nonprofit organizations and local governments.

The final results were as follows:

For the 10 percent of SES positions with the biggest "jobsizes" (job content points), average SES total cash compensation (including bonuses) was 51 percent of that of average industry total cash compensation for jobs of the same difficulty. Thus, SES total compensation for these positions would have to be increased by 96 percent to attain comparability with private industry.

For the 25 percent of SES positions with the biggest "jobsizes," average SES total cash compensation was 59 percent of that of average industry total cash compensation for jobs of the same difficulty. Thus, SES total compensation for these positions would have to be increased by 69 percent to attain comparability.

For the 50 percent of SES positions with the biggest "jobsizes," average SES total cash compensation was 68 percent of that of average industry total cash compensation for jobs of the same difficulty. Thus, SES total compensation for these positions would have to be increased by 47 percent to attain comparability.

For the 75 percent of SES positions with the biggest "jobsizes," average SES total cash compensation was 74 percent of that of average industry total cash compensation for jobs of the same difficulty. Thus, SES total compensation for these positions would have to be increased by 35 percent to attain comparability with private industry.

For the 90 percent of SES positions with the biggest "jobsizes," average SES total cash compensation was 79 percent of the average industry total cash compensation for jobs of the same difficulty. Thus, SES total compensation for these positions would have to be increased by 27 percent to attain comparability.

Additional comparisons were conducted with regard to benefits. We are now reviewing preliminary results, and, as the data become available, we will be pleased to provide them to the Subcommittee. For the present, however, the compensation data demonstrate the breadth of the pay gap with private industry and, thus, provide indisputable proof of the logic and necessity of fully funding federal pay adjustments for 1995.

I would be pleased to respond to any questions the Subcommittee might have.

Ms. NORTON. Let me ask, do you all of you embrace the notion submitted by the last panel that a 1.5-percent cut in contracting should be used to pay for the full funded amounts for locality pay and pay adjustments?

Ms. BONOSARO. I think that's, certainly, one appropriate place to look. Certainly, contractors have not been limited in their ability

to pay appropriate wages and salaries to their staff, as Federal employees have had to be limited overtime. So it's hard to imagine that such a cut would present an undue hardship.

Ms. NORTON. Assuming, as I do not, that we do not get the full amount, what priority as between a pay adjustment and locality pay would you prefer, each of you?

Mr. MOYER. I'll speak to that first, Madam Chair, since I think our testimony reflected that question. Certainly, we recognize that discretion on the part of our union friends perhaps precluded revealing a strategy that might impair future options, but, nevertheless, at this point last year nearly to the day you asked employee organizations to indicate a priority that would be useful to you, not suggesting at all that the full command of the influence of your subcommittee and the full weight of friends in Congress could not pull the tide in the direction that everyone desired.

Nevertheless, going to the bottom line, some understanding of priorities certainly needs to be understood. Federal Managers Association agrees with the course that was taken last year as to its applicability this year, and that is to put the greatest emphasis upon the continued course of locality pay, to close that gap; but that reflection of an option, by no means, suggests that the position of FMA is not to favor only one option over the other, that is, locality over national comparability increase.

We certainly desire to have all Federal workers secure, both in order to assure that structurally and institutionally the Federal Government can deliver the best service possible to the American people.

Ms. BONOSARO. The Senior Executives Association, frankly, has not thought about the issue. Obviously, our energies over the last year and a half or so were devoted to being certain that the career corps would be included in the system of locality pay, because it made sense.

So to be frank with you, we really have not thought about which would be more desirable, if we had to make Solomon's choice here, but we'd be happy to do that and get back to you.

[The information referred to follows:]

SENIOR EXECUTIVES ASSOCIATION,
Washington, DC, March 7, 1994.

Hon. ELEANOR HOLMES NORTON,
Chair, Subcommittee on Compensation and Employee Benefits, Committee on Post Office and Civil Service, House of Representatives, Washington, DC.

DEAR MS. NORTON: During the hearing on the President's fiscal year 1995 budget proposals on March 3, you asked, if the Congress faced a choice between implementing national comparability adjustments or locality pay adjustments for fiscal year 1995, which course of action the Senior Executives Association (SEA) would support or prefer. At that time, I promised that SEA would consider the question and get back to you.

In response, SEA would elect implementing national comparability adjustments. We arrive at this conclusion in recognition of the fact that the locality pay adjustments cannot be applied to Executive Level pay. As a result, implementation of locality pay adjustments, without national comparability adjustments, creates effective annual salaries for Senior Executive Service (SES) members which are above those of one or more Executive Levels. At present, for example, SES members at the ES-5 and ES-6 pay ranks in the Washington, D.C. area are receiving salaries about that paid to Executive Level IV. I trust we would agree that it is not a

healthy situation for any supervisor to be paid less than those he or she supervises. This is especially true of Executive Level officials who supervise career executives.

Sincerely,

CAROL A. BONOSARO,
President.

Ms. NORTON. Thank you. I would appreciate it. Ms. Beckman.

Ms. BECKMAN. It's interesting that you asked that question. Yesterday we had a conference call with all of the presidents of our chapters, and the pay issue was one of the subjects of the conference call.

We would have to take the position that, because of our chapters being located throughout the entire country, that both the locality pay and the cost of living are critical, because it impacts folks in all different areas. They all still have college tuitions to pay, roofs over their heads that they must continue to have, and food on the table and expenses that they have to meet.

So I think everyone—every Government employee across the board does deserve some sort of increase and, because of cost of living factors in certain areas, they need a little bit more.

Ms. NORTON. Mr. Moyer, I was perplexed by your notion that there was no intent that there would be a group of employees that didn't get any raise at all. You were referring to New York, San Francisco, and L.A. Now the only raise anybody else got were locality pay raises, and the New York, San Francisco, and L.A. employees have had a preference, an 8-percent preference, that sounds to me to be pretty generous.

Now a lot of employees around the country would have liked to have even a little bit of that. I believe that the adjustment for New York would have been 5 percent or so. You still got 8 percent, and I'm wondering, in light of the fact that the pay adjustment was not available for anyone, what your concern about last year was.

Mr. MOYER. Our concern, and I can certainly understand your viewpoint—it certainly is a very legitimate one, Madam Chair. Our concern relates not as to last year, but only in the prospective years in the sense of the need to provide something—something, even if only marginal, that helps to indicate as it relates to morale the delivery of a path that conforms with closing the pay gap in that area.

Arithmetically, I think your concerns are very appropriate, but in a symbolic way that relates to morale and fairness in helping to reach that goal of closing the gap to 95 percent, something that incrementally moves in that direction may be helpful.

Ms. NORTON. Now the 8 percent is a statutory figure. That is the one figure that's likely to occur. Isn't that correct?

Mr. MOYER. That's correct.

Ms. NORTON. Whereas, locality pay for other employees is not assured at all this year.

Mr. MOYER. That's also correct.

Ms. NORTON. So even if you were not talking about last year but prospectively, with the 8-percent already written into law?

Mr. MOYER. Well, the 8 percent was delivered, I believe, back in, what, 1990, 1991. The increase that was warranted was not sufficient to overcome what the increase otherwise would have been in light of the 8 percent. So that they're benefiting, I think, for purposes of the size of the gap, upon the early start out of the gate.

That has not brought down the gap with comparison to the gaps that exist in the other areas of the country.

That's still difficult for workers in those areas to appreciate when they look at the possibility of year after year not receiving some movement in a direction when it keeps referring back to you got yours several years ago.

Ms. NORTON. Well, I'm still having trouble, because as I understand it, your 8 percent is guaranteed virtually for next year for these three localities. That is not the case for any other Federal employees. I recognize that the gap may not be closing as quickly as it should. I would be the first to indicate that, but your members outside of these areas now have a terrible Hobson's choice here.

Mr. MOYER. Absolutely, and certainly, by reflecting that viewpoint, we're talking about three areas of the country in which our membership is not predominantly even concentrated. We have members throughout all 50 States and around the world, in fact.

Certainly, this matter of fairness and the appreciation that we're all in this together, certainly, should not be undermined by the suggestion that one area of the country should be favored over another. It's simply how in those areas that we know during the late eighties suffered particularly in terms of the ability of the Government to recruit and retain in those areas.

How can we assure that pay reform stays on track and that, in these lean years when even the size of pay increases, to the extent that they are granted, will not be as large as what they otherwise may have been had inflation been galloping along, that there is some movement in that direction to provide some incremental, even if but marginal, pay increase for those areas.

We certainly would welcome the continued opportunity to discuss this with you and your staff. The correspondence that we have attached to our testimony, I think, helps to reflect the feelings of those areas of the country but, certainly, you have a considerable burden of assuring fairness and the matter of deciding with limited resources how best to satisfy the goal of fairness.

Ms. NORTON. I believe, Mr. Moyer, you testified that you believe it may be already too late to reduce contracting out by 3 percent to fully fund Federal pay increases in fiscal year 1995. What did you mean by that?

Mr. MOYER. Simply to the extent to which agencies in their administration of contracts for next year in terms of the budgets they have and to which they have already agreed may be limited in their flexibility in terms of timing by the time at which perhaps if an appropriations bill or in some other legislation that size of a cut is imposed, to what degree they will have the flexibility to engineer that type of a cut, given contractual obligations.

Ms. NORTON. I just hope that the Government writes its contracts so that it's—and it may not, but I certainly hope that Government lawyers know how to write these contracts so that a contractor may be compelled to reduce his costs during the course of the contract. If not, they need to throw those lawyers out and get themselves some new ones who know how to protect the Government, its client.

Mr. MOYER. We would agree and would certainly hope so, because contractors certainly protect themselves in terms of escape

clauses as their costs, sometimes unanticipated, rise, which they are able to pass those back to the Government.

Ms. NORTON. Finally, I'd like to ask your views on the CSRS and the Government's concern that, in its opinion, it is seriously underfunded. Do you believe—do the three of you believe that there is any danger to the future retirees whom you represent?

Ms. BONOSARO. I think there is an absolute danger that we are concerned about, which was addressed by the prior panel, that initially the increase in the agency contribution will lead inevitably, like dominoes, to then questions about the appropriate level of benefits and so on. This is precisely the fear, I think, that a lot of Federal employees had when they were making the decision, should I convert, move to FERS; if I stay in CSRS, will I, as part of a dwindling pool later, be extremely vulnerable to changes in the system?

If I had a nickel for every Federal employee who said, when I came to work the first day and was sworn in and was given this brochure that reads like a contract about my retirement system and their belief that that really meant something, naive as it might have been—I think we have to have a very real concern for people who made that decision who are in CSRS and who in a sense are stuck in it.

If we start making major changes again in the retirement system, SEA would certainly argue for another open season, although being a CSRS retiree myself, I hesitate to think about what that does to the rest of us who are in CSRS—just left as annuitants when everyone else leaves the ship.

I think that Bob Tobias made some excellent points about that liability, and it's one that really, if the committee is going to move on it, deserves some very careful examination.

Ms. BECKMAN. I concur with Carol's remarks, but I think it is very important, as many of us became Federal employees several years ago and joined the civil service under the CSRS system that we felt it was an obligation on a long-term basis, and they did make a very dramatic decision to stay with CSRS instead of going with FERS, and I think we have to make sure that it's fully funded throughout.

Mr. MOYER. Three points: The first is the policy question of whether an unfunded liability is really a vulnerability for the Government, as Bob Tobias was suggesting, and to what extent that situation transfers over appropriately.

The second deals with the question, I guess, if the first is answered in the affirmative, that it does represent a vulnerability, then to what extent it ought to be financed, to what extent the retirement trust fund should go off budget, as is suggested, I think, in the testimony to come from our friends in the National Association of Retired Federal Employees, and whether a finance mechanism should, in light of the failure of the Government to adequately introduce its contributions in the past, be handled in an incremental way so as to not cause Federal retirees or Federal employees approaching retirement to step up, to kick up their contributions merely because the Government as a policy choice in years past chose not to add its contributions into the fund since, after all, there was the assumption that the Government would be

here tomorrow as it is today and it would be handled through the general fund.

The third is—the third point is the degree to which there ought to be a more comprehensive and official look at this matter, perhaps with the assistance of GAO, that really focuses upon the question of whether there is a liability and the cost estimates that have already been suggested are inaccurate, to what extent the policy choices there are real for the Government as compared to the private sector, and then the question of financing.

Ms. NORTON. Thank you very much. One final question for all three of you. Those that you represent might be in an even better position to know whether they believe RIF's might occur in their agencies. Have you any word that some of your members think that they are working in agencies where RIF's could happen in the very near future?

Ms. BONOSARO. You're looking for specific agencies. Certainly, our sense from our membership is that many of the agencies are going to have to have them if: First, the buyouts don't come, or second, they come, and not enough people take them.

I think we have heard some word with regard to the agencies that have been mentioned earlier, certainly Interior and so on. We've seen some movement with regard to executives in a couple of agencies, but it's hard for me to—so I wouldn't generalize beyond the executive level, because I think it doesn't necessarily mean anything. They may have been responding to the President's executive order which required the managerial—the cut in the managerial ranks very specifically.

So if you would like, we would be pleased to let you know as we hear of any other potential ones.

Ms. BECKMAN. We're in the process of doing a survey of all of our membership, and one of the questions, basically, is what kind of activities are going on within your respective organizations. So we would be more than happy to provide you with the data that we find out about that.

Mr. MOYER. As Jim Sommerhauser suggested earlier, the Department of Defense is continuing to face reductions in force. Two days ago at Norfolk Naval Shipyard, RIF notices were transmitted to nearly 1,000 workers there, twice the magnitude of the numbers of RIF notices transmitted to OPM employees.

RIF authority has also been requested for several other naval shipyards with regard to the RIF of several thousand employees at those facilities over the course of the next several months. This situation is extending itself throughout the industrial facility base of the Department of Defense, in particular, both because of budgetary declines as well as reductions in workload.

I think it's important to underscore the fact that these reductions in force are occurring even with the availability of buyout authority, that the degree to which budget constraints and workload constraints, particularly budget constraints, are forcing reductions of that magnitude is particularly compelling.

I might add as to other agencies that we have heard of suggestions of imminent RIF's at Interior, as already had been suggested, as well as at NASA and the possibility of RIF's at Agriculture.

Ms. NORTON. Well, I certainly intend that buyout legislation act to eliminate the possibilities you have mentioned. Much of the fault here, I don't need to tell you, lies right here in the Congress of the United States, because we could have had these buyouts before the Christmas recess, and should have.

Agencies have been put under enormous strain. The administration did what it was supposed to do. Perhaps it came later with the buyout bill than it should have, but it certainly put a buyout bill before us. A buyout bill, in a real sense, moves us into the kind of thinking that the administration and, for that matter, Members of Congress believe should go on in the Federal Government.

When you lay off in comparable, especially white collar, jobs like the ones we have in the Federal Government, the IBM buys people out, and people go, and it works very well. The Federal Government isn't trying anything new here. It's catching up with everybody else, but we're real dense, real slow, awful slow learners.

In the private sector, nobody—everybody can count. So when they buy people out, they don't say, hey, wait a minute, how are we going to pay for this, because in the private sector they're used to investing something in order to get something out.

We in the Congress are a bunch of numskulls. We think you can get something for nothing, and so this notion of paying for it, talking about several hundred million dollars, but the return on \$22 billion was so awesome that when we finally got everybody to understand it in the House, people were falling all over one another coming to the floor to say what a wonderful bill the buyout bill was, and paying for it seemed absurd.

That's like saying we ought to be able to get the services of Federal employees without paying for it. We want the services. We don't want to pay them to get it. Well, if we want people to leave in huge numbers and to capture what we would have paid them over 5 years, then paying the small amount it takes to get that would seem, to most of us who have gone past the sixth grade, obvious.

I can only apologize that the slow learners on the Hill are still trying to figure it out, and to say that I think that with a lot of remediation we have been able slowly to get people to understand that at least some investment is necessary to get what would be the most extraordinary elimination of Federal employees in the history of the U.S. Government, measured by anything, and in a very short time.

I'm not sure that the private sector can boast this kind of goal, for the most part, in elimination of employees. It's a matter of great concern to this committee, and we're not going to stop until it happens, and my own thought is that we're working so as to make sure that, when it does happen, that it is not too late, and for everybody to hold on and try to get ready, because I can't believe that it will not happen, especially now that I see movement that I regard as fruitful movement, at least in the direction—headed in the right direction.

Mr. MOYER. Well, we certainly appreciate your leadership in this area, Madam Chair. The difficulty certainly owes itself to partisan political reasons, but also the wooden framework, the limited long term vision of the BEA, the Budget Enforcement Act, and the rela-

tionship of mandatory and discretionary spending and the—perhaps this is the first time that Congress is really going to hit itself on the ceiling that's imposed there by the degree in which long-term savings to the Government cannot sufficiently allow for the short-term costs that otherwise would need to be required to be spent under the pay bill rule to be—or to be not spent but financed by reductions elsewhere.

It's crazy, short-term thinking that just shouldn't find a corner within the Congress.

Ms. NORTON. It's so crazy that it costs us more, because these categories are so rigid, defined one at a time, defined for other purposes, never had in mind the flexibility we're trying to bring into the Government now.

They continue to work at such cross-purposes with us that we end up spending more simply because of the way we categorize our savings and our spending. You're absolutely right.

Ms. BONOSARO. Madam Chair, I would just like to, on a related point, applaud you and encourage you to continue to raise the questions you have about how the numbers that are targeted for reductions have been arrived at and what the impact will be on the Government's ability to continue to produce the same amount of work.

I think those are very important question that often get lost, and it's difficult to be persistent about them; but we applaud your willingness to do so.

Ms. NORTON. Yes; in the private sector, when you eliminate employees, buy them out or otherwise, what you have to consider is can I get the product out as efficiently and as quickly, given my competition? So, therefore, when you hear that XYZ Fortune 500 is laying off 200,000 employees, you can bet your bottom dollar that they have figured out that they don't need those 200,000 to compete with their competitors in the marketplace.

I continue to be concerned that 100,000 was picked out of the air, that 118,000 was picked out of the air, and that 252,000 may have been picked out of heaven, because getting there is going to be like getting to heaven, and I certainly don't intend to get to heaven by layoffs.

There's only one way to get to heaven, because you've done right, you're supposed to go to heaven without problems. If what we have is half the people got buyouts and half of them got layoffs, that's going the other way from heaven; and that's not what was promised here.

I heard what Mr. Moyer said about DOD. DOD has done a remarkable job and, yes, the RIF's are beginning to kick in, but one difference between DOD and these other agencies is that DOD was dedicated to a specific mission. That mission no longer exists in the U.S. Government and, all things willing, won't come back.

So it's very difficult to argue that some RIF's, if entirely necessary and if done only after all else has been exhausted, might not occur there; but to take figures and simply lay them across the rest of the Government without a proxy at least for the work that remains to be done—I recognize that we're talking often about white collar work, and you can't necessarily do what you do in DOD or in the private sector, but certainly you can do something besides saying what about whatever number happens to come to mind.

One is compelled to believe this number came to mind almost entirely through deficit reduction. That is something, if we've only decided how much you need to sever to save; and if it bears no relationship to what needs to be done, then we can find ourselves at the end of 5 years at a point where locality pay gap closing would make entirely no difference, because there are very few people willing to work to do, for example, two or three times what you're supposed to do when they can go into the private sector with what appears to be more money and do the kind of work that allows you to go home at night to your family.

As for most Federal workers, of course, they work 9 to 5 or whatever and, unlike managers, aren't required to stay late. I am very troubled, precisely because the NPR points the way toward a management perspective as the way to run the Government as opposed to a sheer civil service, which is here or some folks having to do some work.

This committee, of course, is a pay and wage and benefit committee, and while I have enormous interest in managerial matters, certainly coming out of my own work at the EEOC, we don't have all of the authority we need to do what I'd really love to do, which is to do real oversight over NPR and how it arrives at not only its personnel notions but its other notions.

I think it is a document of enormous promise, but if it's going to carry the private sector into the Government, then it's got to carry the whole thing and not come part way. To the extent that this subcommittee is able to get into those issues, you can be assured that we're going to be right on that case. It is of enormous concern to us.

We don't want to leave you at the end of 5 years saying the worst thing that ever happened to the Government was to eliminate x number of people, because we can't do the work. That may not happen. In fact, if we target correctly and do the buyouts on time, it may well not happen; but even if we do, the evidence that we have targeted the right employees, that the amount of work left is commensurate with the employees on board, that's the kind—that's the way the private sector is going to approach, and I hope before this is all over, we will have a better Government that approaches this in the same way.

Let me thank all three of you for very useful testimony.

Mr. MOYER. Thank you.

Ms. NORTON. We have only one more witness, and I'm pleased to call now Mr. Charles Carter, who is represented by Ms. Judy Park, the legislative director for the National Association of Retired Federal Employees [NARFE]. We're pleased to welcome Ms. Park here, and you may proceed.

STATEMENT OF JUDY PARK, LEGISLATIVE DIRECTOR, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

Ms. PARK. Thank you, Madam Chair. NARFE appreciates the opportunity to appear before you today on behalf of our half-million members to comment on the President's budget for the upcoming fiscal year as it affects Federal employees and annuitants.

NARFE is obviously pleased that the President's budget does not recommend any cuts in the earned and promised benefits of Fed-

eral retirees or survivors this year. However, experience has taught us, and we remember well from last year, that all too often in the budget process Federal retirees can be conspicuous by their absence.

It was just a year ago today, I believe, that we were before you expressing pleasure with the fact that the budget had not recommended COLA cuts for Federal retirees, while we were opposing the survivor reductions that had been made. Yet by the end of that week, the budget resolution had been adopted which made COLA reductions necessary.

With the help of this committee, particularly you and your staff and others on the full committee, we were able to prevent any reduction in survivor annuities, and we were able to find a less harmful way to meet the reductions called for in the COLA cuts. But even the COLA amendments enacted last year have not stopped some Members of Congress from seeking further cuts and limits on those COLA's, which we have yet to see this year, as you well know.

In short, Madam Chairwoman, we recognize that even though the President's budget does not call for any changes in the retirement benefits, they remain in jeopardy so long, I guess, as Congress is in session. We ask that this subcommittee and the full committee, as you have done in the past, help us to hold fast against any budget proposals or amendments to proposals which might diminish the retirement and survivor benefits we were promised.

NARFE shares the disappointment and concern of our colleagues in the Federal work force with the administration's minimal budget for next year's civilian pay raises. The representatives of the active employee organizations testifying before you today, however, have both the day-to-day experience and the administrative expertise, qualifying them to recommend ways and means of achieving adequate funding.

NARFE will not presume to speak for them on this issue of paramount concern to Federal employees, but I assure you that we will support their efforts and your efforts to find funding for full comparability pay, both ECI and locality.

Madam Chair, I do want to comment on the administration's new budget proposal to begin charging Federal agencies the full cost of the employer's share of civil service retirement benefits for their employees. With normal cost of CSRS retirement reported now to be approximately 25 percent of payroll, we understand the proposal would increase the employing agencies' contributions from current 7 percent, in most cases, to 18 percent.

When added to the 7 percent of salary contribution from employees, full accruing costs would be met for civil service retirement covered employees, as they have been for employees covered by FERS system since its inception.

NARFE supports the concept of full accrual financing of the civil service retirement fund. We would hope that it would deflect recurring media attempts to build what we believe are unfounded fears about the system's unfunded liability. However, we would support the proposal at this time only if discretionary caps are adjusted concurrently to allow for the additional employer cost. The guar-

anty that proposed full accrual employer funding will not further threaten Federal personnel and program accounts is a must for NARFE support at this time.

Beyond the administration's idea of full accrual financing, NARFE believes that additional steps are necessary in the future, if we are to clearly define the true status of the civil service retirement fund and its compensation obligations to retired workers.

At our last national convention, delegates voted to support the concept of off budget for the civil service retirement trust fund. We recognize that this involves numerous technical and long-range policy considerations, but we believe it would provide in the end a better understanding of the fiscal stability and financial obligations of that fund.

It is very difficult for retirees, and perhaps anyone, to understand why, year after year, Congress or the administration proposes cuts in our retirement benefits when each year the annual financial statement of the trust fund shows that receipts are well in excess of benefit outlays.

We believe that the cost, the assets, the investments, and the obligations of an off budget trust fund would eventually result in better fiscal planning and retirement security for the Government, its employees, and retirees.

H.R. 1056 has been introduced in this Congress to take civil service retirement fund off budget in the same manner as Social Security. With that bill as a vehicle now pending before this committee, NARFE would like to work with the committee, its staff, the administration, and other interested parties to begin finding ways to resolve the current controversies and the confusion surrounding the civil service retirement fund and the retirement benefits paid from it.

Again, Madam Chairwoman, we appreciate this opportunity to present our views today, and I would like, of course, to join the others in thanking you, particularly, and your staff for the constant support and advocacy you provide for Federal employees and retirees.

[The prepared statement of Mr. Carter follows:]

PREPARED STATEMENT OF CHARLES W. CARTER, PRESIDENT, NATIONAL ASSOCIATION
OF RETIRED FEDERAL EMPLOYEES

Madam Chairwoman, I am Charles W. Carter, President of the National Association of Retired Federal Employees [NARFE]. I appreciate the opportunity to appear before you today on behalf of NARFE's one-half million members to comment on the effect the Administration's Budget for fiscal year 1995 will have on federal employees and annuitants.

NARFE is obviously pleased that President Clinton's budget for the coming fiscal year does not recommend any cuts in the earned and promised benefits of federal retirees or survivors. However, experience has taught us that when it comes to the Congressional budget process, federal retirees can be conspicuous by their absence. Just a year ago we were before this subcommittee expressing our pleasure with the fact that the President's FY '94 budget had not sought changes in our retirement cost-of-living adjustments [COLAs] but opposing the recommended cuts in survivor benefits. A few days later the House Budget Committee approved a budget resolution which would have reduced COLAs as well as survivor benefits for total cuts much greater than proposed by the Administration.

With the help of this committee, we were able to prevent any reduction in survivor annuities and find a less harmful way to meet mandatory reductions in COLA costs in the 1993 Budget Reconciliation Act. But even the COLA amendments en-

acted last year have not stopped certain members of Congress from seeking further cuts and limits on already delayed COLAs.

In short, Madam Chairwoman, we recognize that even though the President's budget does not call for any changes in retirement benefits, they remain in jeopardy. We ask that this subcommittee and the full committee hold fast against any Congressional budget proposals which might diminish the retirement and survivor benefits we were promised.

NARFE shares the disappointment and concern of our colleagues in the federal workforce with the Administration's minimal budget for next year's civilian pay increases. Representatives of the active employee organizations testifying before you today have the day to day experience and administrative expertise which qualifies them to recommend ways and means of achieving more adequate funding. NARFE will not presume to speak for them on this issue of paramount concern to federal employees, but I can assure you that we will speak with them in full support of funding true federal pay comparability.

Madam Chairwoman, I do want to comment on the Administration's new budget proposal to begin charging Federal agencies the full cost of the employer's share of Civil Service Retirement System (CSRS) benefits for their employees. With current normal cost of CSRS retirement reported to be approximately 25 percent of payroll, we understand that the proposal would increase the employing agencies contributions from 7 percent to 18 percent. When added to each affected employee's 7 percent of salary contribution, full accruing costs would be met for CSRS-covered employees as they have been for employees covered by the Federal Employees Retirement System [FERS].

NARFE supports the concept of full accrual financing of the Civil Service Retirement Fund. We would hope that it would help deflect recurring media attempts to build what we believe are unfounded fears about the system's unfunded liability. However, we would support the proposal at this time only if discretionary caps are adjusted concurrently to allow for the additional employer cost. The guarantee that proposed full accrual employer funding will not further threaten federal personnel and program accounts is a must.

Beyond the Administration's idea of full accrual financing, NARFE believes that additional steps are necessary if we are to clearly define the true status of the CSR Fund and its compensation obligations to retired workers.

At our last national convention, delegates voted to support the concept of "off budget" for the Civil Service Retirement Trust Fund. We recognize that this involves numerous technical and long range policy considerations, but we believe it would provide a better understanding of the fiscal stability and financial obligations of the trust fund.

It is very difficult to understand why year after year Congress or the Administration proposes cuts in our retirement benefits when each year the annual financial statement of the CSR Trust Fund shows that Fund receipts are will in excess of benefit outlays.

We believe that the cost, assets, investments, and obligations of an off budget trust fund would eventually result in better fiscal planning and retirement security for the Government, its employees and its retirees.

HR 1056 has been introduced in this Congress, to take the Civil Service Retirement Fund "off budget" in the same manner as the Social Security Trust Fund. With that bill now pending before this Committee, NARFE would like to work with members and staff of this Committee, the Administration, and other interested parties to find the best way to resolve the current controversies and confusion surrounding the CSR Fund and retirement benefits.

Madam Chairwoman, we appreciate this opportunity to present NARFE's views on the President's budget for fiscal year 1995 for the record and for your consideration. We shall be happy to answer any questions.

Ms. NORTON. Thank you, Ms. Park. I'm interested in the part of your testimony in which you indicate that the civil service retirement fund reflects that receipts are in excess of outlays. This would seem to indicate, one, that you don't believe the retirees are in any danger and that changes indeed may not be necessary, including the 25-percent cost of CSRS retirement that the administration claims is there, as opposed to what is now being put into the system.

Ms. PARK. Well, I think perhaps if this were a private industry and this were a true retirement fund with its assets being invested

in various investment mechanisms, perhaps we would need to be paying attention to all of that or giving it more serious attention.

Indeed, public service retirement systems have always operated on a different basis, to a great extent, and receipts do always exceed—or have for some years now—outlays from the fund when you look at the financial statement; but we recognize that the only true dollar receipts of that fund are what the employees pay into it. The rest of it, governmental transfer, is really just crediting, book-keeping crediting.

So you don't have real dollars sitting somewhere, and that's what becomes so confusing to so many people, I think. It's that we keep saying we've got to reduce the cost of the system when the system has a—looking at statements, has a very healthy asset base and runs a surplus, if you will, each year, receipts to outlays.

I think one of the interesting things here is, if the Government did increase employer contributions to the system, as stated in the President's budget, it would have no effect on the deficit, because it's an intergovernmental transfer. It could, in fact, have an effect on the national debt, because it would add to—it would add as a credit to the assets of the fund.

Those assets are, by law, invested in Government securities requiring interest from the Federal Government. It would increase the amount invested and, therefore, increase the interest owed to the fund and, therefore, increase the debt, though not the deficit.

So the complexities, the complications, the confusions that surround this fund, I think, with employees and retirees who depend on it and with the press, with the public, and within the Government itself, need to be clarified. That's really what we're saying.

Ms. NORTON. I wonder if you would explain why you think simply taking it off budget, taking the retirement fund off budget, would clarify or stabilize or otherwise improve the planning or retirement security.

Ms. PARK. Well, I think that we would then look more closely at what retirement obligations were in the law now, from the beginning, and as I stated before, I think everyone could see more clearly what the assets of that fund were, what kind of interest the fund was receiving.

Ms. NORTON. If it was off budget? That's just an accounting mechanism.

Ms. PARK. I think you have to go beyond the provisions of 1056. That's why I commented using that as a vehicle. Social Security's off budget status is not really off budget, as we know. It is a budget accounting issue.

Ms. NORTON. But that would be different than the way Social Security is treated.

Ms. PARK. Yes. We're talking about beginning to look for ways where you could literally move the system off budget, where the receipts, where the credits, to the system would become outlays rather than the retirement benefits being the outlays.

Ms. NORTON. I'd be interested to know what feedback you may have on the changes Congress made in the retiree COLA adjustments.

Ms. PARK. The delay?

Ms. NORTON. The delay, right, from January to April for 3 years. You have some experience, albeit not a great deal.

Ms. PARK. I would say, the retirees' patience in waiting for those COLA's has been tried a bit by all the threats, particularly from Kerry-Brown in the Senate and reported threats even earlier from the House of taking the COLA while it was in delay, and cutting it in half did not help.

Retirees do want to contribute to deficit reduction, and I think the majority of the Members agreed with the leadership of NARFE last year that a delay was the least financially harmful way for them to meet a deficit obligation which they did not ask for but which had been mandated.

We were pleased that the full inflation protection was held in that delay, that we did not lose the percentage of inflation protection, but of course, the disposable income of that has been lost for 3 months while others, particularly those in Social Security, have had it, and Federal retirees have yet to see it.

The outcry from the delay was not nearly so severe as the outcry against later attempts to both means test this COLA and future ones or to simply slash it in half that they heard. I think the retirees are understandably almost paranoid about any changes in that COLA, though, because recommendations for changes have become so consistent year after year after year after year.

Ms. NORTON. I want to thank you very much, Ms. Park, for this is very helpful—for this, which has been very helpful testimony to the subcommittee.

Ms. PARK. Thank you.

Ms. NORTON. The committee is adjourned.

[Whereupon, at 12:25 p.m., the subcommittee was adjourned.]

IMPACT OF THE PRESIDENT'S FISCAL YEAR 1995 BUDGET ON FEDERAL EMPLOYEES AND RETIREES

THURSDAY, MARCH 10, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS,
Washington, DC.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 311, Cannon House Office Building, Hon. Eleanor Holmes Norton (chairman of the subcommittee) presiding.

Members present: Representatives, Morella, Young, and Byrne.

Ms. NORTON. The hearing is convened. I take pleasure in welcoming all of today's witnesses.

Today we hold the second of two hearings on the impact of the President's 1995 budget on Federal employees and retirees. This budget is the first under the new deficit reduction discipline. Last year was a very difficult budget and I would like to thank today's witnesses for their cooperation last year as we fashioned a way to save locality pay and benefits for Federal employees. I hope for the same collegial approach this year.

If last year's budget was difficult, this year's challenge is awesome. We have before us a \$1.1 billion budget to do the work of the \$2.7 billion that would be necessary to fund locality pay and the ECI raises that would benefit—that would normally be due Federal employees. Just as last year, however, this subcommittee must accept the discipline of the President's budget, and this year the Omnibus Budget Reconciliation Act of 1993 has created even steeper mountains to climb.

At the same time, this subcommittee is receptive to suggestions as to how to fully fund this year's pay raises. I hope that today's witnesses will be able to assist us and offer suggestions. At last week's hearing, representatives of Federal employees suggested cutting contracting by 1.5 percent in order to fully fund this year's raises. The lawyer in me has looked for the argument on the other side and has failed to find one.

The arrival of the Clinton administration has raised the morale of Federal employees, who will be a decisive factor in the success of this administration's ambitious and ground breaking plan to totally overhaul the Federal bureaucracy and the way the Federal Government conducts its business. Thus, it is important for this administration to understand why there is such enormous resistance to what for years has been a virtually annual call for one or

another economic sacrifice from Federal employees. This habit, dramatically at odds with good labor-management practice, is a textbook case of how low morale and low productivity develop in a work place. Moreover, frequent pay sacrifices helped produce the pay gap that now requires large outlays for the Federal Government to close.

Private-sector companies use give-backs and other pay sacrifices occasionally but never on a frequent basis, because hard documentation shows them to be both counterproductive and emblematic of a failing business. The Clinton administration may not be fully aware, and therefore may not fully appreciate, that the pay sacrifices proposed today come on top of years of such pay denials that preceded this administration. There is a critical difference, however. The administrations of the 1980's disparaged Government and those who staffed it. This administration is making Government work, wants to reinvent it, and will be extraordinarily dependent upon career employees if the administration is to succeed.

The Clinton administration deserves credit for adopting buyouts, one of the best tools of the private sector. Large private employers have discovered that it is better to become lean without becoming mean. Otherwise, the work force that remains is less likely to enthusiastically participate in making the business more efficient. A surly, roughed-up, downsized work force is not likely to be good at the business of reinventing Government.

Congress, particularly the Senate, deserves the blame for the gridlock on the buyout bill. However, the administration needs to be more energetic in moving the bill now that the House has passed a new one. Thanks to the skilled leadership of Chairman Bill Clay, a compromise bill was fashioned and passed by the House on Tuesday. Meanwhile, RIF notices were issued at OPM last week, some of which could have been avoided had buyouts been enacted when this committee, acting expeditiously, approved them last October. The most senior members of the administration need to work this bill energetically if layoffs that collapse rather than reinvent government are to be avoided. It is up to the administration, whose buyout bill this is, to see that Senator William Roth no longer blocks the gate to buyouts.

May I extend the most cordial welcome to all of today's witnesses and say that I look forward to their testimony.

May I ask my colleague, Ms. Byrne, if she has any opening statement?

Ms. BYRNE. Madame Chair, in the interest of time, I'd like to enter mine into the record; but do associate myself very strongly with your remarks and hope that we can work to uphold the contract and the compact that we have made with Federal employees about benefits. It seems that at every turn, we are doing things that we would not dream of doing with private contractors in terms of saying that they are entitled to one thing and then telling them that that's not forthcoming.

So I would associate again myself with the Chairwoman's remarks and enter my statement into the record, Madam Chairman.

[The prepared statement of Hon. Leslie L. Byrne follows:]

PREPARED STATEMENT OF HON. LESLIE L. BYRNE, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF VIRGINIA

Madam Chairwoman: I'd like to thank you for holding this second hearing about the 1995 budget and its effects on federal employees, retirees and their families.

I am pleased that we are hearing from the administration today about these proposals. As I said in my statement last week to the employee unions, this budget request is a welcome departure from last year's, which slashed benefits for the Federal work force and targeted federal employees for more severe reductions than for virtually any other group.

Fortunately, the administration and this subcommittee were able to find common ground and ask federal employees for a fair and equitable contribution towards deficit reduction.

I believe that the fiscal 1995 budget in general avoids the temptation to achieve deficit reduction primarily on the backs of the federal work force.

However, I am afraid that by looking so good in comparison, we will neglect the fact that this budget plan does in fact deny federal employees certain benefits which have been mandated by law by Congress, and which federal employees expect and deserve.

We should not ignore the fact that, one again, federal workers are being asked to forego either locality pay or comparability pay.

I understand the need to cut wasteful spending and meet the spending caps laid down in last year's budget. But I think we all need to ask ourselves how we expect the government to attract and retain talented people to meet the goals we set for agencies if we are not also willing to pay those people salaries comparable to what they could receive in the private sector.

We need to realize that this budget proposal is sending federal employees—and prospective employees—a message that being shortchanged in their paychecks is a fait accompli which is to be expected each year.

I am looking forward to hearing from the administration representatives about their justifications for spending levels put forth in the budget and how those levels relate to the administration's plan to Reinvent Government.

I am also interested in hearing about how the administration arrived at the 118,000-person reduction number. I have been asking the administration since last fall for documentation about their arrival at the 252,000 reduction and how it conforms to the reorganization and downsizing goals.

I have suspected that the number was merely pulled out of thin air, and I would like some reassurance that the 118,000 figure for fiscal 1995 is based upon credible information that this is the best way to reform the Government and cut wasteful spending.

While we might like to think of downsizing and choosing how many positions to eliminate as some abstract exercise in numbers, it is anything but abstract to the federal employees in my district and around the country who wonder whether they will have a job with the government next year. I hope this hearing can focus on how the administration has examined these changes and their effects on the people who make our government run.

Once again, I thank the Chairwoman for holding this hearing, and I look forward to hearing the witnesses' thoughts on this issue.

Ms. NORTON. Thank you, Ms. Byrne. I am very pleased to welcome our first witnesses, my own very good friend who happens to also be the Deputy Director of the Office of Management and Budget, Alice Rivlin, a Washingtonian; as well as Lorraine Green, who comes from the District government, and whom we are also very pleased to have here as Deputy Director of the Office of Personnel Management.

May we begin with Ms. Rivlin?

**STATEMENT OF ALICE M. RIVLIN, DEPUTY DIRECTOR, OFFICE
OF MANAGEMENT AND BUDGET**

Ms. RIVLIN. Yes, thank you very much, Madam Chairman. I am very pleased to be here again.

The President's 1995 budget is, as you note, a tough budget. It is the second budget that reflects the President's economic plan, which is a plan to get the deficit down and get the economy moving

again. We believe that plan is working. The economy is moving again. The deficit is coming down. This budget is designed to continue that work. It is extremely tough and the cap on discretionary spending for fiscal year 1995 is actually below what we expect fiscal year 1994 spending to be.

People talk about zero-sum games. This is a negative sum game. We are actually reducing discretionary spending below last year. And that's meant very, very difficult choices.

So that's the backdrop against which the provisions affecting Federal employees must be seen. We are holding the line on all kinds of spending. And we are holding the line on Federal employee pay increases, as well, although not as severely as we did in the budget we proposed last year.

We are also attempting to streamline Government, to reduce the number of Federal employees over a 5-year period. The reduction planned for next year will actually be more than the 100,000 that the President proposed last year. We believe that we can have a Government which employs fewer people and does a better job for the country. But it's a difficult thing to do that and downsizing is always hard. We hope to do it without a disproportionate effect on front-line workers, young employees, women, and minorities. That's why we appreciate so much the leadership of this committee in the effort to get buyouts. I'm hopeful that we can bring this overly long chapter to a close very quickly and get satisfactory buyout legislation.

Now, let me turn to the Federal employee pay raises, because I know this is a subject of great interest to this committee. Although all of the economic indicators—including GDP, interest rates, inflation, and unemployment—are moving in a positive direction, the discretionary spending caps leave little room for employee pay increases, or, indeed, for increases in anything.

Providing for the full ECI-based raises and locality pay would have forced further cuts in other programs. The objective, therefore, was to provide for pay increases below current law, but which were at the same time fair to Federal employees. The budget, as you know, proposes a Federal pay increase of 1.6 percent, effective January 1995. We wish the situation were different and that we could provide for a larger pay increase. But the cap on discretionary spending makes it reasonable to ask Federal employees to accept pay raises below current law, especially when the work force is declining and attrition is very low.

The 1.6-percent increase is intended to cover both the ECI-based raise and locality pay. As noted in the budget, we plan to work with the Congress, employee organizations, and other interested parties on how best to distribute the increase between the two. In keeping with the spirit of the National Partnership Council, we believe it's crucial to have employee organizations involved in making this decision.

The other major budget proposal affecting Federal employees is the proposal to charge agencies the full cost of retirement benefits. Currently, agencies pay the full retirement costs for active employees under two retirement systems: the military retirement system, which covers all military personnel; and the Federal employees retirement system [FERS], which covers most civilian personnel

hired since January 1984. These employees comprise nearly half the civilian work force.

Agencies do not pay the full retirement costs for employees covered by the civil service retirement system, which covers most civilian employees hired before January 1984. The CSRS benefits cost 25.1 percent of base pay. The employee and his or her employing agency, however, pay only 7 percent each for these benefits for a total contribution of 14 percent. The shortfall is eventually made up by a general fund payment into the retirement fund.

This proposal is simply a matter of good cost accounting. We believe that we should show the costs in the program when and where they accrue rather than as a Governmentwide cost at some point in the future. This practice was adopted in the 1980's for the military retirement system and the Federal employees retirement system.

This proposal is just one of many improvements that should eventually be made to cost accounting of Government programs. The private sector is moving toward recognizing not only the costs of retiree annuities but also retiree health benefits. The Financial Accounting Standards Board requires that financial statements of corporations recognize the liability of postretirement health benefits for its employees. This is an accounting improvement that is being considered for the Federal Government by the Federal Accounting Standards Advisory Board.

You have undoubtedly noticed that the budget contains a contingent cap adjustment of \$6 billion in BA and outlays for implementing this proposal. This cap adjustment would be necessary to allow agency salaries and expense budgets to be increased to cover the full retirement cost. This would essentially hold agencies harmless for the accounting change. It would ensure that agencies do not have to reduce staff or cut program expenses in other ways to reflect the full costs of retirement benefits.

This proposal would not adversely affect employees. The cap adjustment would ensure that no staff reductions would be necessary to cover the full retirement cost. In addition, the proposal would not change retirement benefits.

The vast majority—\$5.3 billion—of the contingent cap adjustment, would be necessary to cover the CSRS costs. The remaining \$700 million of the cap adjustment would be the cost of charging agencies the full costs of retirement benefits for employees covered by the other retirement systems, including the Public Health Service Commissioned Corps, the Coast Guard, the CIA, and the Foreign Service retirement systems.

This proposal would not affect the deficit. Since the agency outlays for the retirement benefits would be transferred to another Government account, a retirement fund, total Government spending would be unchanged.

Finally, I would like to add that this proposal would not affect agency decisions regarding contracting out. Agencies are already required, under OMB circular A-76, to consider the full Government costs of employee benefits when comparing the costs of contracting out with the costs of having the Government perform the work itself. That requirement would remain unchanged.

This concludes my remarks. I would be happy to answer any questions that you have.

[The prepared statement of Ms. Rivlin follows:]

PREPARED STATEMENT OF ALICE M. RIVLIN, DEPUTY DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET

Madam Chair, members of the Subcommittee, I am pleased to be here today to discuss how the President's 1995 budget affects Federal employees. I have a short statement to make; and I will be happy to answer any questions you may have.

THE 1995 BUDGET

The President's 1995 budget reinforces and builds on the success of his economic plan announced last February and implemented in the FY 1994 budget. The President's strategy is straightforward: we need to set the country on a path of long-term economic growth and the way to do that is to bring budget deficits under control and invest in those things that produce economic growth—research and technology, infrastructure, and education and training.

The program begun by the President last year is working. Economic growth is up; the gross domestic product grew at a rate of 2.9 percent after inflation during 1993 compared to a rate of 1.4 percent during 1989–1992. Long-term interest rates fell last year by over a full point; inflation during 1993 was at the lowest rate since 1986; and unemployment fell from 7.3 percent at the end of 1992 to 6.4 percent at the end of 1993. Jobs are being created—over 2 million of them since January, 1993.

On the deficit, there has been dramatic improvement. Before the President's plan was enacted, the deficit for 1995 was projected at \$302 billion. Our estimate now is that the 1995 deficit will be \$176 billion, a reduction of \$126 billion or 40% from last year's estimate.

The 1995 budget is a tough budget. It has to be. The cap on discretionary spending for 1995 is below expected 1994 spending. This means that increases in any program must be offset by decreases somewhere else. These tough trade-offs have been made; the hard freeze on discretionary spending in the 1995 budget helps to reduce the deficit significantly.

EFFECT OF THE 1995 BUDGET ON FEDERAL EMPLOYEES

Our proposals affecting Federal employees in 1995 must be viewed against the backdrop of the hard freeze on discretionary spending in 1995. Spending on Federal employee programs—for example, pay raises—had to compete with other spending priorities.

In an effort to streamline government, Federal employment will be reduced in 1995. The reduction in full-time equivalents, or FTE, is 118,300 below the originally planned 1993 levels, thereby exceeding the reduction of 100,000 directed by the President last year. We hope to achieve most of this reduction without resorting to layoffs, and to accomplish it in such a way that we do not disproportionately affect front-line workers, young employees, women, and minorities. That is why buyouts are so crucial. They allow us to target the reductions without unintended adverse effects. I want to thank this Committee for its hard work and leadership on this issue. I again urge the Congress to approve buyouts, so that we can extend to the rest of the government a tool that has been used so successfully by the Defense Department to achieve significant workforce reductions without resorting to large scale layoffs.

Now, I would like to turn to Federal employee pay raises, because I know this is a topic of particular interest to this committee. Although all of the economic indicators—GDP growth, interest rates, inflation, and unemployment—are moving in a positive direction, the discretionary spending cap in 1995 left little room for Federal employee pay raises. Providing for full ECI-based and locality pay raises would have forced further cuts in other programs. The objective, therefore, was to provide for pay increases below current law but which were, at the same time, fair to federal employees.

The budget proposes a Federal pay increase of 1.6 percent, effective in January 1995. We wish the budget situation were different and that we could provide for a larger pay raise. However, given the cap on discretionary spending, we believe that it is reasonable to ask Federal employees to accept pay raises below current law, especially when the Federal workforce is declining and attrition is low. The 1.6 per-

cent raise is intended to cover both the ECI-based raise and locality pay. As noted in the budget, we plan to work with the Congress, employee organizations, and other interested parties on how best to distribute the increase between the two. In keeping with the spirit of the National Partnership Council, we believe it is crucial to have employee organizations involved in making this decision.

The other major Budget proposal affecting Federal employees is the proposal to charge agencies the full costs of retirement benefits. Currently, agencies pay the full retirement costs for active employees under two retirement systems: the Military Retirement System, which covers all military personnel, and the Federal Employees Retirement System, which covers most civilian personnel hired since January 1, 1984. These Employees comprise nearly half the civilian workforce.

Agencies do not pay the full retirement costs for employees covered by the Civil Service Retirement System [CSRS], which covers most civilian employees hired prior to January 1, 1984. CSRS benefits cost 25.1 percent of base pay. The employee and his or her employing agency, however, only pay 7 percent each for these benefits for a total contribution of 14 percent. The shortfall is eventually made up by a general fund payment into the retirement fund.

This proposal is simply a matter of good cost accounting. We believe that we should show the costs in the program when and where they accrue rather than as a government-wide cost at some point in the future. This practice was adopted in the 1980s for the military retirement system and the Federal Employees Retirement System.

This proposal is just one of many improvements that should eventually be made to cost accounting of government programs. The private sector is moving toward recognizing not only the costs of retiree annuities but also retiree health benefits. The Financial Accounting Standards Board requires that financial statements of corporations recognize the liability of post-retirements of corporations recognize the liability of post-retirement health benefits for its employees. This is an accounting improvement that is being considered for the Federal government by the Federal Accounting Standards Advisory Board.

You have undoubtedly noticed that the Budget contains a contingent cap adjustment of \$6 billion in BA and outlays for implementing this proposal. The cap adjustment would be necessary to allow agency salaries and expenses budgets to be increased to cover the full retirement cost. This would essentially hold agencies harmless for the change. It would ensure that agencies would not have to reduce staff or cut program expenses in other ways to reflect the full costs of retirements benefits.

This proposal would not adversely affect employees. The cap adjustment would ensure that no staff reductions would be necessary to cover the full retirement cost. In addition, the proposal would not change retirement benefits.

The vast majority, \$5.3 billion, of the contingent cap adjustment would be necessary to cover CSRS costs. The remaining \$700 million of the cap adjustment would be the cost of charging agencies the full costs of retirement benefits for employees covered by the other retirements systems. These include the Public Health Service Commissioned Corps, the Coast Guard, the CIA and the Foreign Service retirement systems.

This proposal would not affect the deficit. Since the agency outlays for the retirement benefits would be transferred to another government account, a retirement fund, total government spending would be unchanged.

Finally, I would like to add that this proposal should not affect agency decisions regarding contracting out. Agencies are already required, under OMB Circular A-76, to consider the full government costs of employee benefits when comparing costs of contracting out with costs of having the government perform the work itself. That requirement would remain unchanged.

This concludes my remarks on the Federal personnel proposals in the Budget. I would be happy to answer any questions you have at this time.

Ms. NORTON. Thank you very much, Dr. Rivlin. Could we hear next from Ms. Green?

STATEMENT OF LORRAINE A. GREEN, DEPUTY DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Ms. GREEN. Thank you very much, Madam Chair. Madam Chair, Ms. Byrne, thank you for the opportunity to appear before you today to discuss the President's fiscal year 1995 budget proposal concerning Federal employment issues. With me today is the Acting Chief Financial Officer for OPM, Kathy McGettigan.

I would like to submit my full statement for the record, and take this opportunity to emphasize a few points.

With regard to the Federal white-collar pay increase, the budget provides for the administration to work with interested parties to determine the most desirable method of distributing the raise. We also seek to ensure that Federal blue-collar workers receive pay adjustments that parallel whatever is determined appropriate for white-collar workers.

The most significant aspect of the budget for Federal employees is the ongoing reduction in personnel, as recommended by the National Performance Review. We are hopeful that the majority of right-sizing initiatives can be accomplished through delayering, by removing multiple layers of supervision, and through reducing some of the central management and control activities. This approach is designed to achieve a more efficient and responsive Government.

But there are also agencies, such as my own, that are faced with the reality of a changing mission, diminishing workloads and financial concerns, that dictate the immediate reduction of staff. It is our goal to achieve these reductions in the most humanitarian way possible and to include bargaining unit representatives at every stage of the decisionmaking process.

Madam Chair, that's just a summary of my opening statement. I'll be happy to answer any questions that you or the committee members may have.

[The prepared statement of Ms. Green follows:]

PREPARED STATEMENT OF LORRAINE A. GREEN, DEPUTY DIRECTOR, OFFICE OF
PERSONNEL MANAGEMENT

Madam Chair and members of the subcommittee: thank you for the opportunity to appear today to discuss the President's fiscal year 1995 budget proposals concerning Federal employment issues.

In the area of Federal pay, the President's budget includes \$1.1 billion for a fiscal year 1995 pay adjustment for Federal employees. That amount is sufficient to permit a 1.6 percent increase for all civilian workers. We plan to work with the Congress, employee organizations, and other interested parties regarding the desirability of distributing the pay increase as a national pay raise, locality pay, or some combination of the two. In addition, as was the case this year, we intend to work with the Federal salary council to address the issues surrounding the implementation of the pay adjustment. I should also note, for the record, that we have included legislative language in the budget's general provisions to ensure that Federal blue-collar workers receive pay adjustments that parallel whatever is determined appropriate for white-collar employees.

Only one budget proposal touches benefit programs for Federal employees. It is in the area of retirement financing that the administration will be recommending some legislative reform. In the mid-1980's, Federal civilian and military employee retirement systems were redesigned. Agencies began paying the full accruing cost to the government of benefits for new civilian hires and for all military personnel, including those military personnel already in the service. For civilian employees hired before 1984—a total of about 1.6 million individuals—agencies still pay only about two-fifths of the government's share of the accruing costs.

The administration's proposed reform will charge agencies the full government share of the accruing cost of benefits for employees covered by the civil service retirement system and other, smaller, individual-agency systems. With the increased agency contribution simply being paid from one government account to another, there will be no impact on the deficit. Similarly, the proposal will have no effect on the level of employee contributions or benefits. We are convinced, however, that by making the government's cost of retirement coverage more explicit, we will improve cost accounting of government programs. This proposal was recommended by the national performance review and is consistent with private sector practices.

Finally, the most significant aspect of the budget for Federal employees is the ongoing reduction in personnel as recommended by the national performance review. As a part of the effort to provide a government that works better and costs less, the budget implements reductions that exceed by 18,000 the reduction of 100,000 Federal positions required by the President's executive order of last year. In addition, planning has begun on the further downsizing that will be required to attain the recommended 252,000-position reduction.

We believe that much of the rightsizing of agencies can be accomplished through layering—that is, through removing multiple levels of supervision—and through reducing some of the central management and control activities, while leaving as many front line workers as possible undisturbed. The removal of these unnecessary layers and excessive complexities is essential to achieving more efficient and responsive government.

Wherever we can, we are working, in partnership with employee organizations, to accomplish agency reconfiguration in the most humane and least disruptive manner possible.

Thank you. I would be glad to answer any questions you may have.

Ms. NORTON. Thank you very much, Ms. Green. Before we proceed on questions, the ranking member, Ms. Morella, may want to say something and I would wait a moment until she catches her breath.

Mrs. MORELLA. Thank you, Madame Chair. In the interest of time, so that we can ask questions, I'm going to ask that my opening statement be included in the record, and I will refrain from making any other comment. I just came from a hearing on technology policy with the Department of Commerce, dealing also with Federal employees at the National Institute of Standards and Technology. Thank you.

[The prepared statement of Hon. Constance A. Morella follows:]

PREPARED STATEMENT OF HON. CONSTANCE A. MORELLA, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MARYLAND

Madam Chair, I commend you for holding this, the second, hearing on the impact of the President's Budget on Federal employees.

As I said in my statement at the last hearing, I believe that the proposed budget earmarked for Federal pay is simply deficient. It is our responsibility and the responsibility of the Administration to ensure that Federal employees are treated fairly and that their salaries are competitive with the private sector.

I need not remind this subcommittee that with the creation of the Federal Employees Retirement System, the Federal Government—more than ever—is in competition with the private sector for the best and the brightest people in public service. I hope that the Administration is as keenly aware of this as we are.

I look forward to hearing our witnesses today.

Thank you, Madam Chair.

Ms. NORTON. Thank you very much, Ms. Morella.

Could I ask Dr. Rivlin first what impacts would the elimination of the contemplated 2.2 percent ECI adjustment, the adjustment that would be contemplated at about that percentage—I'm sorry. Yes. The 2.2 is what has been eliminated; 2.6 is what—or might be expected last year—next year.

What impact will the elimination of the 2.2 percent ECI adjustment and the President's proposal to under fund fiscal year 1995 pay adjustments have on the Government's ability to close the gap that exists between public and private and Federal workers in the timeframe established by FECA?

Ms. RIVLIN. Before I answer that, let me repair my neglect in not introducing Robert Rideout, who is accompanying me today.

It would delay the closing of the gap as originally estimated. We're closing this estimated gap over a number of years, and there

is no reason why we couldn't get back on track later, as decided one year at a time.

From a general view of the economy, it's not clear that the gap is widening. Wages in the private sector have been going up very slowly, actually. That's one of the surprising things about this recovery.

Ms. NORTON. Do you have any further answer on that? You introduced your colleague.

Ms. RIVLIN. No.

Ms. NORTON. So you don't expect it to—you don't expect it to have any effect on the, what, 10-year time frame, the closing gap?

Ms. RIVLIN. We can't say now what effect it will have. But, clearly, it delays the closing of the gap as we originally estimated by 1 year.

Ms. NORTON. In your testimony, Dr. Rivlin, you said that it was reasonable in light of all of the exigencies under which we're all operating to ask Federal employees once again to accept a sacrifice in pay below that provided by current law, especially when the Federal work force is declining and attrition is low.

Now, of course, the normal practice is just the opposite. Normally, what happens when there is attrition and people are leaving the work force by buyouts or layoffs, is raises, in fact, occur for those remaining. It is very unusual to find a situation whereby there are layoffs and buyouts and people remaining in the work force don't get a raise.

I'm wondering in light of your comments whether you believe the ECI should be amended or eliminated?

Ms. RIVLIN. We're not—

Ms. NORTON. Do you still support current law at all given the notion that you have introduced, which seems to substantiate the pay elimination in light of attrition and the decline of the work force.

Ms. RIVLIN. Look at it this way. In general, if you're running a company, you raise wages when you have to attract more workers. And the evidence now is that if the Federal Government were operating as a corporation, it wouldn't be facing the need to raise pay. Attrition is very low, and we're actually intentionally downsizing the Government. We're not trying to attract more people. We're not advocating changing the law. We're just saying that in this very tight budget situation, when there is no evidence that we're having trouble attracting people to government careers—in fact, they're not leaving—we don't see a strong case for additional pay increases.

Ms. NORTON. Dr. Rivlin, I recognize what you said as part of an economic model, but the fact is that it's a practice in the United States that people get some pay adjustment every year.

Ms. RIVLIN. Yes, we're proposing one.

Ms. NORTON. Whether there is an idea that attrition is low, high, or whatever, that's the way America is. There is an economic model that says, yes, you could still keep people employed and the world wouldn't come to an end if you didn't raise the ways when attrition is low. But that's not how this country operates.

So the fact is that all that happens in Federal Government is what happens everywhere else; which is, every year, whatever work force there is expect some kind of adjustment. We have a very

unusual situation here. In fact, you will see in the private sector something I certainly hope not to see here, which is unions often prefer to have layoffs and keep the normal practice of some increase in wages than to spread the work, which is something I often favor more often than to spread the work and get no increases.

What I'm saying is that the Federal Government has in place both kinds of sacrifices. Some people are leaving, and as we have seen, some already by layoffs; and those who are remaining are not to get the normal pay adjustment. That is why we have to question whether or not the administration believes that the current law itself is wise and should be adhered to, because essentially what we get every year is a proposal that, in effect, amends current law to take pay raises out of the law or to allow less pay raise than current law itself allows.

What I'm asking is: Is there a commitment to the ECI? Do you think that next year these employees can look forward to us operating under current law? Are you telling people that the ECI, for all intents and purposes, is dead, and this administration does not intend during these 5 years of deficit reduction to abide by the ECI mandate under law?

Ms. RIVLIN. I can't predict what recommendation we might make next year. That would depend on the situation next year and on what was happening in the economy. Realistically, I think we are going to face a very tight budget for several years. The 1.6 percent seems to us to be a compromise between the desire to reward Federal employees and the exigencies of a very tight budget situation, one in which we're cutting a lot of things we would rather not cut.

Ms. NORTON. Dr. Rivlin, the administration has set up an important relationship with employee organizations and meeting with them and the Partnership Council, again, an important innovation taken from the private sector. These employee organizations have come before us and testified that their pay raises could indeed be funded if the administration had or had proposed a cut of as little of 1.5 percent in expenditures for contracting out the work of Federal employees to private contractors.

Is there reflected in this budget whether or not for Federal workers any indication that those who now hold Federal contracts have been asked to cut those contracts in any way as Federal workers are being asked to make sacrifices?

Ms. RIVLIN. We share the view that there is room for improvement in Federal service contracting practices. And we are proposing procurement reform of various sorts to tighten up on those contracts. We don't think it would be sensible to tie a specific reduction in service contracts to funding an increase in pay for a lot of reasons. There is no necessary connection between those two things. And the service contracts are, in fact, very concentrated in a small number of agencies. One would be simply taking out of those agencies money to fund an additional pay increase in other agencies. I don't think that sounds logical.

Ms. NORTON. Well, does it seem to you logical to present a budget that cuts career—civil servants, some of whom will leave the Government altogether on a RIF basis, while not in this budget, whether or not applied to Federal workers' salaries cutting and not

cutting Federal contracts? Can you see the problem this creates with an employee saying, if I work for a contractor, I might still have my job. I now work for my Government. They can see me and that's why I don't have my job.

Ms. RIVLIN. This budget does reflect cuts and reductions that we expect will come from procurement reform. And let me say we're not cutting Federal employees' pay. We are recommending an increase of 1.6 percent.

Ms. NORTON. Here we have a big problem, because we believe there is procurement reform and we're using words that maybe we don't all see as the same words. Now, the budget you've submitted expects to save \$10.6 billion in outlays during the fiscal years between 1995 and 1999, and reinventing Federal procurement.

Ms. RIVLIN. Right, and about three quarters of a billion in 1995.

Ms. NORTON. Of that amount, about \$544 million is to be saved in 1995, according to our understanding. Now, it would be useful to know specifically what reinventing Federal procurement entails and how it produces savings. And it also would be important to clarify the difference between procurement reform and reform involving contractors who deliver services as opposed—who deliver services to the government through personnel.

Ms. RIVLIN. I would be happy to give you for the record quite a detailed description of our various proposals for contract reform. They involve several major changes, such as considering past performance in the award of contracts. It may be surprising that the Government hasn't done that before, but in fact, to look at the performance record of the contractor in the past contracts with the Federal Government is a major innovation in Government contracting. We're in the process of doing that. And there are a number of other reforms, mostly based on looking at the actual performance. We will be looking at the work to be performed, and getting a better standard for evaluating it, rather than just reimbursing the costs incurred.

We would be happy to give you a set of materials on the proposed contract reform. These reforms will take a while to get in place. They won't all occur instantly. And they apply not only to services contracts, which, as I said, are very concentrated in a few agencies; but to other kinds of procurement of goods, as well as services.

[The information referred to follows:]

A detailed description of the major provisions of the Administration's proposals for contract reform is as follows:

We are working with the Congressional Committees on proposed legislation that would provide for a simplified acquisition threshold of \$100,000 that would authorize the use of simple streamlined buying practices for a significant number of actions between \$25,000 and \$100,000.

The proposed legislation would provide for streamlined procurement procedures of commercial products and remove many of the government-unique requirements that discourage commercial companies from doing business with the government.

The proposed legislation would authorize the use of single and multiple award task order contracting, thereby improving the efficiency of agency procurement actions.

As a result of the President's Memorandum of October 26, 1993, we are directing the activities of an interagency task force that has been formed to develop guidelines for electronic contracting techniques that should realize significant savings in prices and productivity, and increase small business participation in the procurement process.

We have instituted an initiative that encourages agencies to make greater use of performance based service contracts, and where applicable, convert from the use of cost reimbursement service contracts to fixed price service contracts. The initiative is expected to achieve savings through more realistic contract pricing, reduced potential cost overruns, and more balanced risk allocation under these contracts.

We have also instituted an initiative that encourages agencies to recognize excellence in contractor performance by making greater use of past performance as a significant evaluation factor in competition for contract awards. Savings will result from selecting the contractors that place an emphasis on excellent service to the government.

Ms. NORTON. The cost comparison appears not to apply to service contracts. We understand the procurement reform you are undertaking to have to do with acquisition procedures, electronic monitoring—yes, considering past performance and making new contract awards. As you might imagine, our interest is in the contracts that buy people, rather than goods. And we're surprised to find that if you ask an agency about this, that that isn't even broken out.

I don't know if you are aware, but one of the great thunder claps of the 1980's was apparently the extraordinarily liberal way in which prior administrations simply contracted out the Federal Government, it would seem. Mr. Paneta is clear that there is a monster out there of over \$100 billion. We have asked agencies about these contractors. We are appalled at how little oversight there has been by agencies themselves, and, indeed, by the Congress of the United States. This issue has assumed a higher profile precisely because the Federal employees are so clearly visible and these service contracts appear to be hidden, and we don't see any comparable cut in the budget. And all we've heard this morning is that you've told them to look at—to take into consideration the performance on these service contracts before proceeding with them. What we can't understand is why agencies haven't been told whether or not the money would be transferred to cut contracts by a specific amount. Now, at one point in time, percent seems like nothing when you're talking about competitors, contractors who have to compete for contracts. They have to compete for contracts. And if this Government sent the word out that people who want contractors—contracts and who want to keep them, look at your own payroll and look at your own books, and give us back a figure for us that's 1.5 percent less than the figure you gave us when we awarded the contract. You have them in a week. These folks need those contracts so badly, you put the burden on them. You immediately have the 1.5 percent to do whatever you would like. We want it to be used for the people who have been denied benefits all along, but let's lay that aside a minute.

Why in the world not say, let's use give-backs for contractors for a change. The Federal work force has been giving back now for years. Why hasn't that not been done in this budget? And wouldn't it have helped us, as we face a work force that, for the umpteenth time, is being asked to give up part of what the law says it is due.

Ms. RIVLIN. Well, the budget does reflect reductions in contracts and—

Ms. NORTON. Well, what is the percentage reduction in contracts for services reflected in this budget? What is the amount?

Ms. RIVLIN. I don't—

Ms. NORTON. What is the amount of money or the percentage amount that agencies have been told to save?

Ms. RIVLIN. We have not given a specific percentage for service contracts. It didn't seem to make sense to break those out in reforming general contracts. There is a lot of reform to be done in acquisition of goods, as well as service contracts. The budget does reflect an allowance for the savings from procurement reform. And we are in the process of allocating that among agencies. But this is already in our budget. You're proposing an additional amount to be taken out of services.

Ms. NORTON. You don't know that it's in your budget, because all you know is that somewhere under procurement reform, they are trying to reduce. Let me guess that I think that service contracts ought to be broken out for a lot of reasons having to do little with—having to do little with savings. I think you need to know we need to know more about how much in contracting is going to service contracts that imitate what the Federal career service has been doing all along. We need to know that. We need that information. And if cuts are being made there as opposed to the procurement of goods, we need to know that, as well.

Let me suggest another reason. It is far easier for us to deal with employee organizations and it will be far easier for your agencies to deal with employee organizations if your employees know, because you have broken them out, that service contracts also are being cut. But if it's hidden under some great procurement title and we are simply assured and we are given no amount and no percentage, then you've got a big morale problem here and you give us a situation where we have no answer to and we look to you for the answer and you have no answer, except it's there someplace, trust us.

It needs to be broken out. And I don't understand why—

Ms. RIVLIN. I'm not saying it's there somewhere, trust us. I'm saying we have very specific amounts in the budget for contracts.

Ms. NORTON. Well, what is the amount? What is the amount in services then that agencies have been asked to serve? If, in fact, you have specific amounts and somebody will tell us, it will help us a lot. It will help increase the morale of the work force, so they know it's not only them. That service contracts that are out there are also being cut this year.

Ms. RIVLIN. I think we can give you an estimate on service contracts. I don't know exactly what it is. The intention of procurement reform was not to target service contracts only. But it's not true that we don't have specific numbers for the savings from procurement reform.

Ms. NORTON. Do you have specific numbers somewhere for the saving on that part of it?

Ms. RIVLIN. On the service contracts.

Ms. NORTON. I'll pass on it in a moment. See, the reason we're having difficulty here is that we're looking at your own budget, "Making Government Work Better and Cost Less, Reinventing Federal Procurement." If you would just look at the heads under it, what you get are Electronic Commerce, Making Supplier Past Performance Count, Voluntary Cooperation to Improve Procurement Performance, Moving from Rigid Rules to Guiding Principles.

I mean, that's it, and it doesn't give us the information that perhaps it is unfair to you, as well, not to break this out. You've got a surly work force that 100 percent is saying to this committee, what kind of folks are they? There are more than 100 billion dollars' worth of services and goods out there, and we have no evidence that those people are being cut. What we need is some evidence, so that we have something to say to them that you have something to say to them. Can you get us that evidence?

Ms. RIVLIN. We can't spell out exactly how all of these procurement reforms are going to play out in the agencies. And a lot of these are agency decisions. OMB doesn't contract. OPM doesn't contract very much. These are decisions made by agency by agency. As they contract, they will be working within a different set of guidelines and with a different set of incentives, which we expect will produce considerable savings. And we have an allowance in the budget for those savings. We can't break out at this time exactly which categories the savings would be in.

Ms. NORTON. Would you be willing to ask agencies to break out those savings that come from service contracts?

Ms. RIVLIN. I think we could do that. I don't know how quickly we could get the information.

[The information referred to follows:]

We are currently instituting the reforms mentioned above, specifically, the increased use of performance based statements of work for service contracting and the conversion of cost reimbursement service contracts to fixed price service contracts which will result in savings in the service contracting area. We have not determined the best approach to track the savings from these initiatives. As agencies report dollars obligated under service contracts to the Federal Procurement Data System, we expect to monitor the extent of these savings through this reporting mechanism. We will be working with the agencies to determine the best approach to break out savings that come from these initiatives in service contracts.

Ms. NORTON. I would appreciate it. We would appreciate it. We think it would help you as much as it would help us.

Are you aware of the GAO report to the effect that contracting out costs the Government more than keeping the work inside? Are you aware of that recent report in last week's newspaper?

Ms. RIVLIN. I'm not aware of this particular report if it came out last week. No, I don't know that.

Ms. NORTON. This report is entitled, "Government Contractors Measuring Costs of Service Contractors Versus Federal Employees." It is one of the reasons, Dr. Rivlin, why there is an enormous pressure from Federal workers who, first, don't have evidence that others are being cut like they themselves. Then they read the newspaper last week that GAO says the contracting out costs more money.

Ms. RIVLIN. I think it often does. This is a problem that we've been very aware of and are trying to work on. And agencies that have a major part of their work done by contracting, such as the Department of Energy and EPA, are the agencies that we've been focussing on. We are trying to make sure that they have enough in-house employees to supervise these contractors adequately, which they often have not had. And we are trying to ensure that they are putting in place procedures to monitor those contracts better and to make sure that we're getting enough for the taxpayers' dollar. I would agree that this is a problem. And it's a problem that

specific departments have been urged to work on very hard, and that we are taking steps to change.

Ms. NORTON. Part of the problem here, as pointed to by the GAO, is precisely services or people that the contracting out for services that has been the focus of my questions. For example, let me read you a section:

In contrast to the A-76 requirements covering commercial activities, which would require cost comparisons, agencies are not currently required to conduct cost comparisons in determining whether to contract for advisory and assistance services.

So whatever—you know—you cited the requirement earlier on in your testimony. Well, for these services which parallel what the government career person herself does, there is not, apparently according to GAO, the same kind of cost comparison required. You can see why these folks say these other folks are getting a free ride and we're being downsized.

Mrs. Morella.

Mrs. MORELLA. Thank you. I wanted to present a dilemma that comes through what Chairman Norton has said, and also what the report indicates. It's talking about downsizing. It says—in the GAO report, on page 4, “* * * could, in effect, create new personnel ceilings, rather than eliminate them as agencies find themselves in the position of having to contract out to meet the downsizing goal regardless of what cost comparison studies show.”

A case in point is the National Institutes of Health. It will, in the President's budget, experience an increase. However, with downsizing, it is going to experience a decrease in the personnel. And I know that it is going to impede some of the progress and advancements that we are pushing them in Congress to proceed with with regard to research. I have a particular interest in development of, let's say, microbicides with regard to women and AIDS and sexually transmitted diseases. We know it is going to have an impact on that.

Therefore, if they are to continue with it, they're going to try contracting out in some way. I have some great reservations about that. I'm sure that this is the kind of situation that has been replicated in some other critical agencies. I wonder if there is some resolution in cases like this .

Ms. RIVLIN. We don't anticipate that the downsizing will increase contracting out. The goal for reducing the number of Federal employees was constructed by looking across the government at the layers of bureaucracy which occur everywhere, even in the research establishment; and looking at the number of people that are personnel specialists, budget specialists, other people whose basic job is to supervise and check on other people. Our hope is to reorganize the way the Government works, so that there really is more responsibility on the front-line employees and less need for all of this complicated checking and rechecking.

We really believe that the Federal Government can do what many corporations have done: reduce the number of supervisory and middle management personnel, reorganize work so that it is done more effectively, and get the work done with fewer people. We are also not proposing a uniform percentage reduction across the Government. There certainly are places where the work load has increased, where it will not be appropriate to downsize. There are

other agencies where the work load has decreased; most notably, the Department of Defense, where a large part of the downsizing will be concentrated.

We're looking now at the streamlining plans of the various agencies to see what kinds of downsizing is appropriate, agency by agency.

Mrs. MORELLA. That is what is going to have to be done ever so closely, because when you try to propose a cure across the board even though you think you have some latitude, you may defeat some of the functions of the agencies. I would hope that this would be done very closely in terms of scrutiny and in terms of making sure that we aren't just resorting to contracting out or not doing it or giving up and saying that it can't be that important, prioritizing in one's own personal way within an agency.

I also note that many times when we contract out, we're doing it for reports and analyses that end up back in the hands of Federal employees to respond to, to analyze, to react to. OK, add another dimension. Sometimes these studies done by outside contractors are not even in the appropriate form for the Federal employees to pick up on them to respond to. Can you address those problems?

Additionally, would you comment on the number of studies; the fact, that these studies often get hidden away or go to Federal employees to have to analyze them; and, the fact that the studies do not even conform to the acceptable report form for the Federal agencies?

Ms. RIVLIN. I think we've certainly had lots of instances where reports were not as useful as the contracting agency had hoped they would be. And I can only say that we hope to improve that and to cut back on waste of all sorts, including that kind.

Mrs. MORELLA. How do you do that? I mean, do you just cut back on the number of contracts or a certain category?

Ms. RIVLIN. You have to rely on on agency managers to do sensible things in the face of very tight budgets; and very tight budgets are what they've got now, all of them. They are very strapped for funds, and they've got to consider what do they need most. We're trying to put emphasis on serving the customer, getting the job done, and measuring the performance of the Government itself. In the face of that, I would suspect that we'll have less contracting for useless reports. I'd be the last to say that that's never happened or that it won't happen again.

But both the budget pressures and the efforts of this administration to look carefully at the results of spending money are, I think, working in the right direction.

Mrs. MORELLA. It seems like guidelines should be emanating from the administration about some of that. And I also wondered, do we have any statistics about the number of contractors that we may currently have in contrast to those that we had 5 years ago, and the kind of money we're now putting into it compared to about 5 years ago, through each of the last 5 years? It would be very interesting for this subcommittee to take a look at whether we have increased, to what degree, what kind of money we're now putting into it compared to what we did about 5 years ago.

Ms. RIVLIN. We could supply that.

Mrs. MORELLA. Would you do that?

Ms. RIVLIN. Yes.

[The information referred to follows:]

The number of contractors (i.e., unique establishments) doing business with the government over the last five years are: (It should be noted that if a company has several locations and each location receives a contract, a unique establishment code is assigned to each location.)

Number of unique numbers

Fiscal year:	
1989	62,819
1990	73,224
1991	76,388
1992	82,472
1993	74,473

The amount obligated under federal contracts over the last five years is as follows:

	Actions	Dollars (\$000)
Fiscal year:		
1989	15,161,634	\$184,164,807
1990	19,868,629	191,198,280
1991	20,152,308	210,689,057
1992	20,150,974	199,806,499
1993	19,712,511	200,416,201

Mrs. MORELLA. Finally, on another topic, with regard to coming to a conclusion about how we spend this percentage increase, is there a plan in the offing for all of these groups that you mentioned in the testimony that would be working together to decide what to do with that 1.6-percent increase, whether it's a locality pay or a across-the-board salary increase? I know certainly it will be before the fiscal year. But is there any plan worked out now in terms of the time?

Ms. RIVLIN. In terms of the schedule of meetings to discuss this?

Mrs. MORELLA. Yes, right.

Ms. RIVLIN. Not that I know of, but we will be doing that soon.

Mrs. MORELLA. We have had a problem with Federal employees that have been suffering from a paranoia feeling that, regardless of the administration, that there is Federal employee bashing going on. And we're trying to point out in a bipartisan way that we recognize how important Federal employees are to our competitiveness. Thank you.

Thank you, Madame Chair.

Ms. NORTON. Thank you very much, Ms. Morella.

I have more questions for you, Dr. Rivlin, but I'd like to ask—I suppose it would be Ms. Green. How many reductions have there been in the Federal work force since this—I'm sorry. How many positions that were filled when this administration came into office are now gone; not only not filled, but gone from the agency?

Ms. GREEN. I don't have agency figures. We can work with OMB and provide those figures. In our agency, we have taken a 12-percent reduction, and that amounts to over—

Ms. NORTON. A reduction in people who had—in filled positions?

Ms. GREEN. Well, no, not necessarily filled positions.

Ms. NORTON. See, that really is my question. That's all the Congress is interested in.

Ms. GREEN. Certainly. We can provide that information.

[The information referred to follows:]

From the 1993 base of employment there was a reduction of 20,900 employees as of September 30, 1993. The President's fiscal year 1995 budget estimates that there will be a total employment reduction of 71,000 by September 30, 1994, and 118,300 by September 30, 1995.

Ms. NORTON. You don't have that for OPM, much less for the rest of the Government.

Ms. GREEN. Right.

Ms. NORTON. You see, there is confusion on the Hill, rank confusion, about how to count when the 252,000 has taken place. It is very important for OPM and OMB to get a system for counting that they both have and can defend, because we are put in an untenable position when we can't say what number of the 252 is already taken care of and what number to expect. You'll have no trouble coming up with numbers like 118,000, which is the number that was in this year's budget; nor have we ever been able to get an explanation of where any of these numbers come from.

We have no reason to believe that there is any standard by which these reductions, including the 252, have been measured. No one has ever given us any basis for that, except, frankly, that you want to reduce the deficit, which we also do. But we still are anxious as to whether or not those numbers have been taken out of the air or bear some management relationship to your efforts to reform the Government.

So may I ask both of you while you're here to help us on the matter of counting and knowing what reductions have taken place, within what time frame, which were filled positions, so that we do not have that controversy on the Hill.

The budget indicates that the administration plans to consult with employee organizations and other interested parties as to how to distribute the \$1.1 billion pay increases. Has this happened? When and how do you expect to carry out that indication in your own budget?

Ms. RIVLIN. It hasn't happened yet. We will be meeting and putting that process in place. I think it will be an iterative process. We will talk to different people at different times, and come to a conclusion at some point.

Ms. NORTON. There is some confusion about the introduction into this whole debate of the retirement fund shortfalls. We are told that the true cost of the CSRS retirements is 25 percent of an employee's base pay. And that's almost 14 percent of—that's almost twice of the 14 percent, which employees and agencies currently contribute to the CSRS. Now, this amount has been vigorously—this percentage has been—as the percentage that we should rely upon, it has been vigorously contested in earlier hearings.

The budget seems to indicate that such a change would have no impact on the deficit, because funds would simply be transferred from one government account to another. If that's the case, will this accounting change have any impact on the deficit or on the national debt?

Ms. RIVLIN. It will have an impact on the debt, although it doesn't have an impact on the current deficit. That is because the Government is paying itself. But when the Government pays into funds that are held in Government bonds, it does increase the debt by that amount.

Ms. NORTON. Why was—again, this is a problem that comes up and came up at a most inopportune time, because it came up when we were trying to get the buyout legislation approved. Why is it necessary, given the fact that we're talking about intergovernmental accounts, to address this problem now?

Ms. RIVLIN. It's not necessary. We just think it's good accounting practice. It should have been done a long time ago, and it's time to do it.

Ms. NORTON. Well, it's good accounting practice, but you could imagine that this good accounting practice now has had an extraordinary effect. It essentially undercuts your own buyout bill, because what the Senate was saying was, all right, we've got this—it's not an accounting problem. Of course, we couldn't see what the problem was. It all came out of the same bunch of money, all of it from the Federal Government. So now you've got this big accounting problem. And they said it may mean—what it ought to mean is that you ought to be paying twice as much into the CSRS than you are. And we're not going to let your buyout bill out of here until you demonstrate that you are paying this.

So it seems to have very real effects. You suggest that we need only raise the caps and that will take care of it. And we're having trouble understanding, since we understand that this is about \$6 billion a year in additional funds for these payments. Who is going to pay this? Do you anticipate that federal employees will have to contribute more to the CSRS?

Ms. RIVLIN. No, we do not. The 7 percent contribution is in law and absent a change in the law—and we're not recommending one—it will not affect the employee contribution.

Ms. NORTON. But, you see, now that it's been raised, we've actually had to come up with the money in order to get the buyout bill passed or a way to pay for the money—pay for the bill. And we're wondering whether or not the employees and the agencies, for that matter, because their contributions are both written into law, are going to be asked in years to come with cold cash, because you have raised this problem as one that has to be dealt with immediately and piled it on top of all of the deficit reduction that is underway. It turned out to be real dollars for us. Your buyout bill would have been out of here if the Senate hadn't said, oops, come up with \$519 million to pay for this or there is going to be no buyout. Now we're up against this terrible deadline, because this issue was raised.

Ms. RIVLIN. Well, I'm not sure I see the connection, except it may have given some people an excuse who weren't in favor of buyouts. But, to go back to your original question, we don't anticipate changing the rules for Federal employees, although that could be something that the Congress might want to think about in the future. But we're not proposing that now.

Ms. NORTON. Then how would we come up with the additional \$6 billion each year to fund the CSRS retirement's unfunded liability?

Ms. RIVLIN. By appropriation.

Ms. NORTON. Do you have that in your budget?

Ms. RIVLIN. Yes. This whole thing is in the budget.

Ms. NORTON. You earlier—

Ms. RIVLIN. I'm sorry. We show this as a contingent cap adjustment. We don't actually build the numbers in until the legislation passes.

Ms. NORTON. You indicated earlier that we would be spending more than the budget allows. First, I'd like to understand that, how you expect that to be the case, one. And, second, if in fact we are in a zero sum gain, how are we to come up with \$6 billion extra every year for the CSRS? First of all, the question, we're going to spend more than the budget allows. How do you come to that conclusion?

Ms. RIVLIN. We are proposing that we increase the caps and that the Government charge itself for the payment to a Government fund. That way we have a proper accounting for the current accrued cost of Federal retirement.

Ms. NORTON. So, essentially, you propose to add \$6 billion to the debt every year in order to account for this?

Ms. RIVLIN. It would add to the debt, yes. But it's a liability of the Government that exists. It's just recognizing this. We're not doing something different here.

Ms. NORTON. No, you're doing something that's important. But if there is more money involved, you can understand our concern as to where the money is going to come from. And if we raise the caps, that's one thing. If we take it from the existing Government resources, that's one thing. If we take it from the employees, that's one thing. We just wanted to make people aware of that.

Ms. RIVLIN. We are proposing raising the caps.

Ms. NORTON. I'd like to ask Dr. Rivlin about the status of revisions for the A-76 guidelines. Would you be willing to do the same kind of cost comparisons in the future for these service contracts that you do for other procurement contracts?

Ms. RIVLIN. I don't know the status of revisions on A-76, but I would be happy to answer that for the record.

[The information referred to follows:]

With respect to the status of A-76, OMB is considering a number of revisions to the Circular. Revisions under consideration include the application of cost comparison requirements to certain advisory and assistance services, efforts to make the cost comparison process less burdensome, enhance the protection currently afforded to Federal and contract employees, facilitating "Best Value" contracting within the context of comparing in-house and contract bids, and other changes to ensure that a level playing field is maintained. We are currently planning to seek input from interested groups to ascertain what improvements are needed and how they can best be achieved.

Commercial activities currently performed by service contracts are considered subject to circular A-76. Except as provided for in the Circular, agencies are only required to perform cost comparisons when management is considering changing the activity from being performed in-house to contract or from contract to in-house. Agencies are free—and we would encourage them—to conduct cost comparisons at any time that they believe that an activity is costing more to perform than it could be with either in-house or contract resources.

Ms. NORTON. Thank you. I would very much appreciate that. Were you concerned that the buyout authority, if and when and hopefully when it is passed in the Senate and the conference is completed—and we don't think we have but about a week. Were you concerned as to whether that buyout authority is still—that buyout capability when we get the authority will be alive and well? At the hearing that we had last month, agencies, D Cabinet officers

testified that the buyout would be useless to them in the current fiscal year if it were not made available by the middle of the month.

Ms. Green, is that still the case?

Ms. GREEN. It's the case in some agencies. We have reached the time in the fiscal year where it would not be financially feasible.

Ms. NORTON. But not in all?

Ms. GREEN. In OPM—no, not in all. It depends on the level, the grade level, that the buyouts would be offered. At OPM, for example, if we had gotten it earlier in the fiscal year, we could have offered buyouts to the entire workforce. Now, we're looking at around the grade 13 and above level.

Ms. NORTON. Are you aware of any agencies, other than OPM, that are preparing to initiate RIF's during fiscal year 1994 if Congress doesn't pass the buyout bill; or, indeed, if Congress does pass the buyout bill?

Ms. GREEN. There are some agencies I know just from an informal survey that are thinking about it. They would have to consult with their bargaining units and have that type of discussion, so I don't think anything has been formalized as yet.

Ms. NORTON. What agencies?

Ms. GREEN. I don't have a listing of them.

Ms. NORTON. You just said you've done an informal survey. You can't think of a single agency out of your informal survey?

Ms. GREEN. Well, as I said, they have not discussed this with any of their bargaining units or their employees. They gave us figures. And the agency figures come to about 7,500, but they, too, have to go back, as we did, and discuss this with their bargaining units.

Ms. NORTON. I met with Director King. Is he indisposed this morning?

Ms. GREEN. No. He is preparing for our appropriations hearing, which is also being held today.

Ms. NORTON. I met with him. I had a fruitful meeting 2 weeks ago concerning the RIF situation at OPM. He told me that he would examine the possibility—in fact, he told me he would rescind OPM's delegations of authority to agencies to perform background investigations. He agreed to work with us and understood that this work should not be in the hands of contractors while we were laying off people here in the agency. We know those delegations occurred before you came. We also know you tried to get them back and didn't when the agency said, no, we prefer to keep them.

Have you retrieved these delegations from agencies who are now contracting out to private employee or private contractors?

Ms. GREEN. We are in the process of talking to these agencies. Director King has personally either visited all of the agencies or scheduled visits with all of the agencies to discuss the possibility of either the rescission of them, voluntarily giving us the authority back, or hiring some of the OPM investigators, if they choose to do it in-house themselves. So those discussions are ongoing and we hope to have some results shortly.

Ms. NORTON. There is a vote on the rule, one of the few things in the House I don't vote on, so I don't have to leave at this time. I believe it is. I wish somebody would check to make sure.

What agencies have delegated this authority, please?

Ms. GREEN. The Drug Enforcement Administration, NASA's inspector general, Customs Service, Department of Education inspector general, U.S. Marshals Service, and Department of Commerce.

Ms. NORTON. Those are the only agencies with delegations now?

Ms. GREEN. Yes, who have delegated authority from us, yes.

Ms. NORTON. Have those agencies in turn delegated the work to private contractors?

Ms. GREEN. Yes.

Ms. NORTON. Has OPM monitored the work of these agencies?

Ms. GREEN. Yes, we have. We do a sampling, which amounts to about a 10-percent sampling of the agencies. And that's our monitoring.

Ms. NORTON. And how often is that done?

Ms. GREEN. We do it yearly.

Ms. NORTON. When was the last time it was done for these agencies?

Ms. GREEN. I don't have the dates, but it should have been in either the last fiscal year or the last calendar year. I can check on the dates.

Ms. NORTON. I would ask you to provide that for our record.

Ms. GREEN. Certainly.

[The information referred to follows:]

All six agencies were reviewed during calendar year 1993.

Ms. NORTON. What have been your findings with respect to the quality of work done by the private contractors in these agencies, for these agencies?

Ms. GREEN. We have found, by and large, that they have had a very good record. The samplings have shown some errors and some omissions. But looking at the types of errors and omissions in our sample, we have found that in the substantive areas, they haven't been what we would call the serious type that would cause a problem with the employment of individuals, such as on a high quality investigation for a top secret clearance, for example. Part of that is that you have to go to vital statistics and get a copy of the birth certificate, in some instances that may have not been done. So that would, in fact, be an example of an omission that could be corrected.

But, by and large, our results in talking to the agencies have found that they have been very responsive in the area of accuracy.

Ms. NORTON. Do the FBI and the CIA have delegated authority to do their own investigations of personnel?

Ms. GREEN. They have authority, yes, to do their own investigations.

Ms. NORTON. Why were they not named in your list?

Ms. GREEN. We did not delegate that authority to them. The only ones that we have delegated authority to are the six agencies that in fact, contract out. There are other agencies that have authority on their own right. They don't get the delegation from OPM.

Ms. NORTON. Through what—

Ms. GREEN. Through statute.

Ms. NORTON. I doubt it's through statute.

Ms. GREEN. Well, I can check and see, but they do not get the authority from us.

Ms. NORTON. How many agencies are there of that kind and what are they?

Ms. GREEN. I will check on that for you. I know that there is some part of DOD and the FBI and agencies you mentioned, CIA. [The information referred to follows:]

AGENCIES WITH DELEGATED INVESTIGATIVE AUTHORITY

1. THE INVESTIGATIVE AGENCIES

Agencies which were already conducting background investigations when E.O. 10450 was signed in 1953 were "grandfathered" as having a *de facto* delegation.

Central Intelligence Agency.

National Security Agency.

Federal Bureau of Investigation.

Defense Investigative Service (DOD).

Department of State.

Agency for International Development.

Department of Treasury: Internal Revenue Service; Secret Service; Bureau of Alcohol, Tobacco, and Firearms; Bureau of Engraving and Printing; and Customs Service.¹

U.S. Information Agency.

U.S. Soldiers' and Airmen's Home.

2. AGENCIES WHICH MAY CONTRACT FOR OR CONDUCT OWN INVESTIGATIONS (DATE OF ORIGINAL OPM DELEGATION)

Department of Commerce (1989).

Drug Enforcement Administration (1984).

U.S. Marshals Service (1988).

Department of Education Inspector General (1987).

NASA Inspector General (1985).

Customs Service (1986).¹

Ms. NORTON. The committee—subcommittee received information that, last year, a review of background investigations done by a contractor for the DEA found that over 95 percent did not meet OPM guidelines. Is this accurate?

Ms. GREEN. I'm not familiar with that particular case. I have had discussions with our investigations staff concerning DEA, in general. And they have told me that they have been interested in some of the procedural omissions that have been going on. A percentage of 95 percent, of course, is very alarming, and I would have to check on that.

[The information referred to follows:]

The reported 95 percent deficiency rate was based on the gross numbers of errors or omissions in a sample of reports. Most of them, about 70 percent, were the responsibility of the agency, not the contractor. There are elements of an investigation which a contractor cannot accomplish, such as obtaining access to State and local law enforcement records.

Ms. NORTON. We would like you to provide this committee with the background information on these agencies you have named, about six or seven agencies, as to what their performance level has been over the past, let's say, 5 years, recognizing in a given year somebody may go astray. But we're interested in whether these

¹ Customs Service was an original "investigating agency" until 1986 when it decided no longer to use its own Agents to conduct background investigations. At that time Customs asked OPM to do the cases. OPM could not promise timely service, and delegated to Customs the authority to contract.

agencies are systematically performing, as well as and up to the standards imposed on career employees.

[The information referred to follows:]

OPM takes sample (if only a small number, all) of the contractors' completed investigation reports and critiques them according to the same standards applied to reports completed by OPM's investigators. We turn the critiques over to the agency, informing it of the errors or omissions found. It is the agency's responsibility to correct the errors.

Most of the errors or omissions, about 70 percent, were the responsibility of the agency, not the contractor. There are elements of an investigation which a contractor cannot accomplish, such as obtaining access to State and local law enforcement records. Overall, the errors and omissions OPM has critiqued would not have changed the outcomes, i.e., the employment or security clearance decisions.

Ms. NORTON. If delegations are reclaimed—first of all, have any delegations—has any work been brought into the agency—

Ms. GREEN. No.

Ms. NORTON [continuing]. As of today?

Ms. GREEN. No. We're still having ongoing discussions. We anticipate that these discussions will bear fruit shortly. As I said—

Ms. NORTON. What is there to discuss?

Ms. GREEN. Well, in our mode as a consultant, working with our customers, we are trying to work with them to have them do either one of two things: to give us the delegation back; or to hire some of the OPM investigators themselves by bringing the work in-house. So when the director is having these discussions with the agencies, he is discussing three or four different options that they may have in addition to canceling.

Ms. NORTON. What is the deadline? We're talking about 520 people who won't be out in the street. This is why I'm pressing you on the motion of discussion. Every discussion day is a day somebody is closer to not having a job. What deadline have you put on yourself with respect to these discussions?

Ms. GREEN. These discussions, Mrs. Norton, are not going to bear fruit in time for the investigators that have received RIF notices. What we're concentrating—

Ms. NORTON. Not a single one?

Ms. GREEN. No.

Ms. NORTON. You don't think there is a single layoff notice that could be rescinded within these 60 days because of these discussions? You have said you want to know whether or not some of these people can be hired themselves or the work brought back into the agency.

Ms. GREEN. What we're doing is we're aiming our efforts at protecting the job futures of the investigators that are going to—

Ms. NORTON. So you are doing nothing to protect the 520 who have already received layoff notices?

Ms. GREEN. Mrs. Norton, we won't even have enough work for the ones that have not received layoff notices. So what we're trying to do is not put ourselves in another RIF posture.

Ms. NORTON. So the 520 that are gone, for layoff notices that are gone—are, as far as you're concerned, gone?

Ms. GREEN. As far as the delegation.

Ms. NORTON. What about the buyout legislation? If the buyout legislation comes through in time, could some rearrangements in the agency be made such that some of these jobs could be saved?

Ms. GREEN. What we're doing with the persons who have received reduction-in-force notices, we're working with various groups and agencies. We have a whole out-placement program, which I can tell you about. But as far as the buyouts are concerned, we're looking at the buyouts to stave off any future RIF's. We just do not have the amount of work coming into us even if the delegations—

Ms. NORTON. I recognize that when I—I recognize that you all have an actual situation, a real situation.

Ms. GREEN. Yes.

Ms. NORTON. This is no question about it. Our only criticism of OPM was that these delegations, which you didn't put out there in the first place, be allowed to stay out there and not retrieved, knowing that you were falling off the side of a cliff when it came to work. That, by the way, I have to tell you all, is an awful bad sign for reinventing Government. If management is sitting there on its hands and it cannot figure out what the next thing to do as it sees it's going to have to lay off employees. And the first thing anybody hears about downsizing and 520 layoffs from OPM, you have made the kind of start for the downsizing that the administration wants that really disserves this administration. The administration did not deserve that. It put a buyout bill over here. It could have put it over here a little earlier, but it put it over here. And the real fault lies with the Congressmen not getting it out. Then everybody looked around to see whether or not there would be layoffs. And here comes OPM, the lead agency, that didn't have sense enough early enough to try to pull back some of this work. And it has had a very disturbing effect, because it has been—it has resonated around the entire Government. And it has sent a false message about the administration's downsizing. And the reason I'm pressing you is because there needs to be outward invisible energy to do what can be done to keep OPM from becoming the first agency that collapses under this, especially since we can't guarantee anything about buyouts at the time. You would have had to do some buyouts. But when we saw your charts, you had this information from the moment you walked in the door, that there was this terrible deficit in your revolving fund. And that was not your fault. What was your fault, what was management's fault scares me to death, because it may mean that there is not the skill across this government to do creative management. What was management's fault was not going back to those so that you would not be scrambling at the last minute to keep even more layoffs from occurring. And it's very disconcerting to hear that, even with the buyouts, there may be more layoffs at OPM.

Ms. GREEN. We are trying very hard not to have that be the case, which is why we're having a sensitive marketing effort to market our services with the other agencies. And we're very hopeful that those marketing efforts will bear fruit.

Ms. NORTON. Has any fruit been borne on those efforts thus far?

Ms. GREEN. We have some good leads. I think that, given the type of expertise we have in our agency and the quality of our personnel, that we will be in a good position with the agencies to compete with whomever else they may be thinking about to provide the services.

Ms. NORTON. One more question for Dr. Rivlin. Everybody read in the paper that the post office wants to raise the cost of stamps now yet again. I must ask you then what are the implications of the proposed increase of agency contributions to the civil service retirement fund for the Postal Service, in particular? Do you expect a particular effect there?

Ms. RIVLIN. No, there aren't any implications for the post office. It was separately provided for in its own legislation.

Ms. NORTON. I want to thank each of you. I know this is a trying budget for you and that you're trying your best. All of this is now falling the way it has for years before you came. That is much the crux of the problem, that Federal employees have absorbed various sacrifices over the year. And I think there were raised expectations that that might be at an end.

You've found yourself faced with a government that didn't give you a lot of—faced with a deficit that didn't give you a lot of options. And you have courageously embraced the responsibility to deal with that deficit. In the same way, we've got to be just terribly creative to see that we do whatever we can to keep employees feeling that a new day really is coming with the reinvention of Government; and that they will not be in line for endless sacrifices; and that the part of the private sector which is now endemic, which is that you don't do layoffs and cut people's raises at the same time, is not to be the wave of the future for the Federal Government.

Please understand that this subcommittee is entirely sympathetic with the parameters within which you work, entirely sympathetic. We know that you don't have any choice, that the omnibus budget act was passed by us.

The reason I pressed so hard on contracting is precisely because we don't see a lot of room elsewhere. We also are aware that, even if there is contracting room here, even if we were able to devise something, that there would be enormous difficulty even given the way in which the Congress works in making the transfer over.

We're aware that, as Dr. Rivlin says, these contracting out potential savings are not spread across the agencies.

What we are doing is imply trying to make the very best effort we can, so that Federal employees who know that we will not move outside of this discipline, nevertheless, feel that working with you, we have done everything we can within this discipline, to see to it that they get what they're entitled to under the law.

Thank you very much. That was very helpful and important testimony.

Ms. RIVLIN. Thank you, Madame Chairman.

Ms. GREEN. Thank you.

Ms. NORTON. There is one more witness, a very important witness, Ms. Nancy Kingsbury, Director of Federal Human Resource Management Issues, GAO.

STATEMENT OF NANCY KINGSBURY, DIRECTOR, FEDERAL HUMAN RESOURCE MANAGEMENT ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Ms. KINGSBURY. Good morning.

Ms. NORTON. Good morning once again, Ms. Kingsbury. We're glad to have you here. You can see we can't have a hearing without you.

Ms. KINGSBURY. It's beginning to look that way, isn't it? I'm happy to be of service. I think what I would like to do is just very, very briefly tell you about my statement. First of all, I'd like to introduce Bob Shelton, who works with me and who I brought along this morning, because he knows more about this retirement issue than I do.

We have a prepared statement. With your permission, we'll just submit that for the record.

Ms. NORTON. So ordered.

Ms. KINGSBURY. Thank you. And basically the three proposals that we have brought our observations on have pretty well been covered this morning. On the limit on the pay increase: While we are fully supportive of the effort to reduce the Federal deficit and bring these matters under control, we continue to be quite concerned about the ability of the Federal Government to not just recruit warm bodies, but to recruit the quality of people that are needed to carry out the enormous challenges that the Federal Government faces.

We have been saying in this hearing room and elsewhere that the effort to streamline and downsize the Government is also something that we can certainly fully support. But, as was touched on this morning, we think it's very important to look at it agency by agency, and to do it in a rational and well-planned way. We are on the verge of completing some work where we've looked at downsizing strategies in the private sector and in State and local governments. And the lessons we are learning there emphasize the importance of work force planning and strategic planning, of caring for the survivors in the corporation, and of good communications throughout. I think the efforts that are going on now in the Federal Government could learn some lessons from that.

Then, finally, this pesky retirement accounting change is something that we have recommended for years and years. It goes back well into the 1970's. But, as you have observed, the nuances of it are somewhat lost on some of the people debating other bills, like the buy-out bills. And it has now become problematic for that reason. And with that sort of overview, I would like to move right ahead to questions in the interest of time.

[The prepared statement of Ms. Kingsbury follows:]

PREPARED STATEMENT OF NANCY KINGSBURY, DIRECTOR, FEDERAL HUMAN RESOURCE MANAGEMENT ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

In large part, the proposals in the President's budget affecting federal employees represent efforts to address the challenges created by the deficit problem. The proposal to limit the 1995 pay raise to 1.6 percent is a further short-term compromise of the reforms enacted in the Federal Employees Pay Comparability Act of 1990 to make federal employees' pay once again competitive with nonfederal pay. Given the challenges facing the government to resolve the deficit problem, federal employees may again have to make sacrifices like the proposed pay limitation. But, significant challenges exist as well as in recruiting and retaining quality employees. GAO continues to believe that serious attention should be paid to restoring pay comparability as soon as possible.

GAO supports efforts to move to a smaller, more efficient government wherever possible. However, any staff reductions must be based on well-considered strategic

and workforce planning, and good communications, to ensure that critical skills are not lost and surviving employees remain productive. GAO's ongoing work to examine downsizing strategies in the nonfederal sector emphasizes the important of these points.

The budget's proposal to charge agencies the full government share of accruing costs of the Civil Service Retirement System does not affect the deficit, but is an important step toward the objective of identifying the full costs of government programs. According to OPM projections, the retirement fund will continue to grow and have enough assets to cover retirement benefit payments in the future under the current financing arrangements. The proposed higher agency contributions might cause the financing arrangements to be changed, but they do not appear to be needed to enable the retirement system to honor its commitments to employees and retirees. Rather, the objective is to ensure that accruing costs are properly recognized and charged to agency programs.

Madam Chair and Members of the Subcommittee: We are pleased to be here this morning to assist the Subcommittee in its consideration of the President's budget proposals affecting federal employees. Specifically, these proposals are to limit the 1995 pay increase, reduce federal employment levels, and charge federal agencies the government's full share of the accruing costs of the Civil Service Retirement System.

LIMITATION OF FEDERAL PAY INCREASE

The President proposes to limit the 1995 pay raise to 1.6 percent. This would further delay full implementation of the 1990 federal pay reform law.¹

Although the exact amount has not yet been determined, full implementation of the pay reform law would result in a substantially larger federal pay increase in 1995. The national pay increase, based on the Employment Cost Index (ECI), would be 2.6 percent. Added to that would be various locality pay adjustments which in 1994 averaged just under 4 percent. Assuming the remaining pay gaps stayed constant, the average 1995 locality adjustments would be around 2 percent and, combined with the ECI pay adjustment, yield a total average pay increase of about 4.6 percent.

We appreciate the importance of reducing the budget deficit and realigning spending and taxing priorities to meet urgent social and economic needs. At the same time, we remain very concerned about the government's need to attract and retain employees of the highest caliber. Indeed, a recent survey we made of new college graduates and placement officials showed that federal employment is still too often not the career choice of the best and brightest. Substandard pay continues to be cited as a major reason most new graduates do not see the government as a desirable career choice.

Given the challenges facing the government to resolve the deficit problem, federal employees may again have to make sacrifices like the proposed pay limitation. But, significant challenges exist in recruiting and retaining quality employees, and we hope that serious attention can be paid to restoring pay comparability as soon as possible.

FEDERAL PERSONNEL REDUCTIONS

The budget proposes to reduce the number of federal personnel by 118,000 through the end of 1995 and by an additional 134,000 through 1999, for a total reduction of 252,000.

These proposed reductions are based on the conclusion by the National Performance Review (NPR) that the various "reinventions" of government operations it proposed could result in a 12 percent reduction in the number of federal workers, or 252,000 positions.

The NPR report did not specify how it derived its estimate of the number of excess employees or how the determination was made that agencies had more employees than they need to effectively accomplish their missions. However, the report expressed the view that employment reductions could be achieved by taking steps to encourage federal employees to become managers of their own work. The report maintained that cuts in the number of supervisory personnel were possible by "reducing the power of headquarters vis-a-vis field operations", freeing agencies from over-regulation, and eliminating "systems control" staff. The NPR called for agency heads to set goals for increasing the span of control for every federal manager as

¹ Federal Employees Pay Comparability Act of 1990 (Public Law 101-509, Nov. 5, 1990).

part of an overall federal government objective of doubling the managerial span of control in coming years.

We support efforts to move to a smaller, more efficient government wherever possible. However, any staff reductions must be made in a strategic, well-thought out manner. Equal, across-the-board reductions for all agencies and functions should be avoided. Such an approach does not distinguish between efficient and wasteful activities and can seriously diminish agencies' capabilities to manage their resources and deliver services to the public.

Workforce restructuring and downsizing efforts have been fairly common among large nonfederal employers in recent years. To better understand the approaches and techniques these employers used, we are visiting some of them and seeing if lessons can be learned from their experiences. This work is not complete, but some themes are emerging thus far that we believe are relevant to the federal situation.

For the most part, the private employers we visited did not start with reduction targets in mind or even the assumption that employee headcounts had to be reduced. Rather, they often examined the worth and contributions of functional units and targeted reductions to those units found to contribute least to corporate efficiency. For example, one company used what it called a "3Rs strategy"—(1) rethink, (2) reshape, and (3) resize. Under this strategy, the company assigned values to its various groups and categorized them into core and noncore units. It then focused its reductions efforts on the noncore units. Another company asked the managers of all departments to examine their work processes and identify opportunities for reducing headcounts and expenses. The company also sought to increase its manager's span of control through targeted examinations of all cases in which managers supervised three or fewer employees. This examination resulted in a number of managers being demoted, reassigned, or separated, and when completed, caused the average managerial span of control to increase from an average of four employees for each manager to an average of six employees for each manager.

We believe it is important to recognize that there are many legitimate factors that determine what an appropriate level of supervision should be for an organization or function. Our work in the private sector suggests that detailed examinations are generally used in making decisions on appropriate staffing levels. The private companies' experiences confirm our long-held position that sound workforce planning must be an integral part of decisionmaking on staffing levels in the government.

PROPER ACCOUNTING FOR RETIREMENT COSTS

The budget proposes to charge agencies the full government share of accruing costs of the Civil Service Retirement System. We support the objective of this change.

The proposal is consistent with a long-standing recommendations we first made back in the 1970s. In reports on retirement system funding practices, we pointed out that the real cost of providing retirement benefits to federal employees was not being recognized.² At the time, the Military Retirement System was funded entirely on a "pay-as-you-go" basis, with no recognition or funding of the costs of future benefits or funding of the costs of future benefits being accrued by active military personnel. Some of the accruing costs of the Civil Service Retirement System—the largest retirement program for civilian employees—were being recognized and funded, but a significant portion of the system's costs was ignored in the actuarial valuations. We recommended that all the government's retirement systems adopt actuarial valuation methods and funding provisions that reflected the full cost of accruing retirement benefits and charge to agency operations all costs not covered by employee contributions.

The requirement to fully fund accruing retirement costs was subsequently adopted for the military system and the Federal Employees Retirement System (FERS) that covers most civilian employees first hired after December 31, 1983. However, it was not adopted for the civil service system that continues to cover employees hired before January 1, 1984. As we understand it, the budget proposal is intended to correct that oversight.

In general, employees covered by the civil service system and their employing agencies are each required by law to contribute 7 percent of pay to the retirement fund.³ However, these contributions do not cover the accruing costs of the system.

²See, for example, *Need for Overall Policy and Coordinated Management of Federal Retirement Systems*, FPCD-78-49, December 29, 1978.

³Higher contributions are required for some covered employees. Members of Congress contribute 8 percent of pay, and congressional employees and certain law enforcement and firefighter

According to the latest actuarial valuation, the system may cost twice as much as employees and agencies are now contributing.

This disparity occurs because employee and agency contribution amounts do not reflect the cost of two expensive features of the retirement system. Each time employees receive pay increases, the retirement benefits they will eventually receive also increase since benefit amounts are related to salary levels. Once retired, employees receive cost-of-living adjustments based on increases in the Consumer Price Index. The retirement costs created by employee pay raises and retiree cost-of-living adjustments are not covered by employee and agency contributions.

Under the statutory financing arrangements for the civil service system, the added retirement liabilities created by employee pay raises are amortized in 30-year installments. For the most part, these costs are included in amounts appropriated annually to the Office of Personnel Management (OPM) for deposit into the retirement fund. Other agencies' budgets are not charged for any portion of these amortization payments. A major exception to this is the legal requirement that the U.S. Postal Service fund the retirement liabilities created by pay increases it negotiates with its employees by making amortization payments direct to the retirement fund. Similarly, the law requires the Postal Service to amortize the liabilities created by its retirees' cost-of-living adjustments. However, amortization payments are not required to fund the added liabilities created by cost-of-living adjustments for non-postal retirees. These adjustments add dollar-for-dollar to the retirement system's unfunded liability.

The current lack of full recognition of accruing civil service retirement costs in agency budgets results in the understatement of the cost of government programs. Sound decisionmaking on whether and to what extent the various programs should be authorized or continued is inhibited if the true costs are not known. Providing employee retirement is clearly part of the cost of agency operations and should be fully reflected in agency budgets.

The budget proposal gives no details on how the change to full retirement cost recognition would be made. There are a number of ways it could be done. When the necessary legislation to implement the change is proposed, the specifics can be evaluated at that time. We would be pleased to make such an evaluation if you desire.

It is important to note that, as the budget acknowledges, increasing agency civil service retirement contributions will not change the budget deficit. Also, according to OPM projections, the statutory financing arrangements for the civil service and FERS systems are sufficient to enable the retirement fund to continue to grow and have enough assets to cover retirement benefit payments in the future. Therefore, although the proposed higher agency contributions for the civil service system might change the current financing arrangements, the increased contributions do not appear to be needed to enable the retirement system to honor its commitments to employees and retirees. Rather, the objective is to ensure that accruing costs are properly recognized and charged to agency operations.

This concludes my prepared statement. I will be pleased to answer any questions you or the Members of the Subcommittee may have.

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Ms. NORTON. In your opinion concerning your last statement about supporting the increased payments to the CSRS, does the administration proposal actually adopt an actuarial evaluation method that reflects the full cost of accruing retirement benefits?

Ms. KINGSBURY. We have not studied the underlying assumptions for that in some time, but they have a systematic way of calculating that amount. And absent going back and actually examin-

personnel contribute 7.5 percent of pay. The employing organizations match the employee contributions.

ing the specific assumptions, I don't think I can say much more than that.

Ms. NORTON. We were interested in your remarks about underfunded pay adjustments in light of the work that you have done. You heard testimony that everything seems to be hunky-dory, because the private sector is downsizing and we're not losing people. So what's the problem? What do you think? Would you elaborate upon what you think the problem is?

Ms. KINGSBURY. I think it's correct to say in the Federal sector that attrition is low and that there are, relatively speaking, lots of applicants for Federal positions. That is not true across occupations. It is not true in certain skilled jobs that are very important to the Government. And it begs the question about whether the purpose of a Federal recruiting program and the purpose of a pay system is just to get warm bodies, as I mentioned earlier; or whether we really should be positioned to be attracting the quality of people that the big corporations always seek to attract. And with respect to what we see that is going on among those corporations, who have considered their downsizing efforts relatively successful, they tend not to cut pay and benefits. They tend to avoid doing that in order to keep the work force that remains committed to the corporation and the strategic goals that have been identified. So we're a little bit concerned about the impact of that.

Ms. NORTON. There was evidence, of course, that the pay gap that resulted in locality pay had been partly responsible for deterring the best and the brightest from coming to the Federal Government.

Ms. KINGSBURY. We're still seeing that. We're just completing work on a survey of college graduates, for example, asking them whether they considered applying to the Federal Government. And many of them did not. And many of the ones that did not cited perceptions of low pay or uncompetitive pay as one of the reasons they did not. And that concerns us. I mean, that is the pool from which the government of the future needs to be drawn when we get back to hiring. We are going to have to get back to hiring some day. And, in fact, some agencies are hiring today. Not every agency is downsizing.

Ms. NORTON. And there are some positions that agencies simply must fill—

Ms. KINGSBURY. That's correct.

Ms. NORTON [continuing]. Even during downsizing. And those are likely to be the positions hardest to fill when people read every year that there is a pay sacrifice. I meant it when I said to the last panel that in studying the private sector, the first thing you would pick up is that people don't lay off people and fail to give raises. You just don't do them both. Your work force just flattens out that way and you're just not able to get work done.

The experience in the 1980's of a two-tier work force lasted a hot minute when private employers tried something and they thought, well, why not with new employees. And they found you can't put employees side by side with others doing the same work and have differential benefits and pay. It just doesn't work.

So I am concerned that, as the Federal Government adopts the best of the private sector, it does not overlook this long ingrained

lesson, as well. So your own work here is very important, because we do see an administration that is trying to adopt the best practices and it simply has budget strictures that makes it very difficult.

Ms. KINGSBURY. I think it's important to recognize that the companies we have looked at in particular, in large part, were not downsizing particularly because of budget constraints; they were downsizing to make themselves more competitive in the market place. And they did that——

Ms. NORTON. See, that's the functional equivalent of a budget constraint. If you're not competitive in the market, you're going to go out of business.

Ms. KINGSBURY. But there are some companies cutting back that are not about to go out of business. I was noticing this morning coming to work that USAir is announcing getting concessions out of its employees. But some of the companies that are doing that, as I think you mentioned earlier, are on the verge of bankruptcy and they don't have any choice. I think we're not that close in the Federal Government, or at least we shouldn't be.

Ms. NORTON. But young people understanding who engages in those kinds of sacrifices knows that that is not for them, and it is very worrisome. In your written statement, you say that you visited private employers in order to see if lessons could be learned from their downsizing experience. In your opinion, is the Federal Government mostly imitating that experience? Could you provide specific examples of consistencies or inconsistencies?

Ms. KINGSBURY. I think across the board what we saw in the companies that we looked at was that this process began with a focussed effort to do strategic and work force planning. And in some cases, that took the form of real specific consideration of issues that you hear in the rhetoric of the government but not in the analysis of the Government—things like span of control or what kinds of occupations did they need; or what is their business for the future going to be. Then they decided what restructuring they wanted to make. That's one aspect where I think there are some considerable differences.

The second one is—and this one surprised us a little. I don't quite know why, but it did. In hindsight, it seems fairly obvious. That is, a real concern for the survivors, an equal effort to worry about the morale of the employees who are not going to be laid off or who are not going to be bought out. Early on, buyouts and other kinds of incentives were a big feature of the non-federal efforts. As money got tight and as the problems got worse, we see the companies having to move away from those kinds of programs. But the concern for the survivors certainly is something that they emphasize to us over and over again.

Then, finally, really good communications with employees. And I don't see very much of that going on in the Government, either. There is a great deal of uncertainty, in large part, because of the problem about the buyout, about who is going to be affected by this. Is it really my job? Middle management is sitting around feeling beleaguered because of the rhetoric about the need to take most of the cuts out of the high to the middle managers. An awful lot of employees, because of the implications of what happens when

you have a RIF, are probably quite anxious. And I think the private sector worries a lot more about that than I see the Federal Government worried.

Ms. NORTON. Based on—excuse me?

Ms. KINGSBURY. I was just asking if Bob wanted to add anything else. It is his job I was talking about.

Mr. SHELTON. You covered it very well.

Ms. KINGSBURY. He says I did it good.

Ms. NORTON. Based on GAO's studies of contracting out, do you believe that the Federal Government's practices are efficient and economical and not in need of cutting or reforms? I'm now referring to service contracts.

Ms. KINGSBURY. Well, clearly, the report that we've issued, which was in the newspapers last week, because a draft kind of got out the door away from us.

Ms. NORTON. That sometimes happens.

Ms. KINGSBURY. That sometimes happens, yes. Actually, for the public record, I'd like to point out that that report has been issued in its final form today. I wanted to have it available at the time of this hearing so that we could get the real report on the table for everybody.

Basically, what that report says is that we went out and looked at the extent to which agencies had studied the question of whether a cost analysis would show whether there were savings or not. As you were told earlier in the hearing, for service contracts, there is no requirement for a cost analysis. As a matter of fact, I think you read from our report that there is no requirement that cost analyses be done. And, indeed, we discovered that in large part they are not done. And when they are done, they don't consider the full range of costs that are required in the cost analyses under A-76 for other kinds of contracts.

Ms. NORTON. Is that because it's more difficult? I mean, why wouldn't that be normally done, since they do do them for other kinds of procurement?

Ms. KINGSBURY. Well, it's difficult even under A-76. There is a fair body of work that suggests that even though they have pretty good guidelines, it's a difficult exercise to really pin down all the costs and do the job right. And relatively few A-76 analyses that we've ever looked at have been done very well.

Having said that, there has seemed to have been a reluctance until recent months in OMB to require formal cost analyses for service type contracts, partly on the grounds that you would want to be more concerned about other factors than costs, like whether you're getting expertise or that sort of thing. And we wouldn't disagree with that, but we think a cost analysis would be useful. And we recommend that in our report. OMB is being reasonably receptive to that at this point in time.

Ms. NORTON. Do you think that a small percentage should be cut out of the federal budget from listing contractor budgets and credit it to agency budgets?

Ms. KINGSBURY. We haven't looked at that question, and I don't know what the real potential is for savings in that regard. As we have looked at the statements that were made to this committee last week and the 1.5 percent that was talked about, that appears

to need to be applied to the whole \$105 billion or \$107 billion of broadly defined service contracts as opposed to the types of contracts we covered in our report, which are a considerably smaller dollar amount. So it's not clear how much could be gained from that. But I certainly personally find your analysis that Federal employees would feel better about all of this if there was some evidence that the pain was being shared by the people who are getting the advantage when federal positions are cut as something that's worth looking at further.

My concern is that I'm not sure how much money it would actually produce. We calculated in our report that service contracts, the management support and analysis and reports and the kinds of things we've been talking about here is only about \$12 billion of that \$107 billion. So if you took 3 percent of that or 5 percent of that, you're still not talking about enough money to fund a full Federal pay raise.

Ms. NORTON. But at least there would be a feeling of fairness in the Federal bureaucracy that everybody was having to sacrifice.

Ms. KINGSBURY. Well, I think certainly across the board, there would be that feeling. And I think on a contract by contract basis, you'd have to look and see whether or not it's really feasible.

Ms. NORTON. Yes, you certainly would. Again, however, because there may be some contractors—the only reason I think you would, I might add, is because there are some contractors that are doing what only they could do. But nobody has looked at the Government to see if it's feasible to cut 252,000 out.

Ms. KINGSBURY. That's correct, also.

Ms. NORTON. Not a single soul has ever justified that figure.

Ms. KINGSBURY. That's correct.

Ms. NORTON. For all we know, we're going to be left with people doing—with fewer people doing the same work. The only thing that bothers us about that number is we think this is driven entirely by deficit reduction. And we know that nobody in the private sector would do that. In the private sector, the first thing they do is say, let me see if I can get these widgets out with fewer people.

Upon discovering, after an analysis, that they could, then they layoff or buyout excess bodies. Without that here, this committee is very anxious that we'll be sitting here close to 1997 if the people kind enough to return us find any surprises, because that's what you tend to find when you push the dynamite button without knowing what you're going to blow up. And at the moment, we really don't know that.

All we know is that these agencies know that they have got to find somebody. They're going to be lucky in the first year, because we're getting no attrition, because everybody is waiting for buyouts. And if this buyout legislation doesn't happen, then nobody is going to move yet. And, of course, we don't have an age that you have to leave the government or anyplace else any more. And it would have been much better not to propose buyout legislation than to propose it, have it travel through the house, raise everybody's hopes and sit everybody down tight where they are; because it is absolutely irrational to leave the Government now unless you absolutely must if you are anywhere near the group that could possibly qualify for a buyout. We regret this and the Congress must as-

sume, I think, most of the responsibility for how this has occurred. It's very nerve-wrecking to say the least.

I am interested—we are interested in the draft that was in the paper last week that indicated that at least certain kinds of service contracting might be more economical—more economically performed if Federal employees rather than contractors were doing it. Then your study said that this might not be capable of generalization to the entire Federal Government, because of limitations in the study. What limitations did you have in mind?

Ms. KINGSBURY. I think you have to look at what we did. There were four studies that the Senate committee that asked us to do this work was aware of. We were asked to go out and look for others. We found five more.

The studies that were done, first of all, did not include all of the cost elements that would normally be included if you did a thorough cost analysis. And, secondly, they covered very few contracts. Of the \$12 billion or so in service contracts, the studies we looked at probably covered—I don't know the exact number, because some of the studies don't even say how many they covered. But it would probably be less than \$5 million. I could get you a little closer to that. That's a very small part of that \$12 billion. So that's why we said we couldn't generalize.

And we also observed in that report that there are circumstances under which contracting out is a more economical way of doing things. If you want a particular expertise for a short period of time, it might make sense to contract it out, rather than to hire somebody with that expertise.

But this needs to be looked at on a case by case basis.

Ms. NORTON. I take it then that, given the study that you have done, it would be—we would all be better off if there was some kind of break-out or line item where you're identifying service contracts.

Ms. KINGSBURY. That has been recommended occasionally in the Congress. We have never had a——

Ms. NORTON. Isn't that the——

Ms. KINGSBURY [continuing]. Particular opinion about it. I think it would help us to do a study some day if——

Ms. NORTON. Is all that it does is make your study more difficult?

Ms. KINGSBURY. No.

Ms. NORTON. Are the agencies better off if they, at the end of the year, can't look and see what has been spent particularly for service contracts when they have people in the agencies that might do those things themselves?

Ms. KINGSBURY. We think those kinds of analyses ought to be done. Whether that means you need a line item in the budget is kind of a different question.

Ms. NORTON. Well, how would the agencies identify the service contracts?

Ms. KINGSBURY. Well, the agencies would be able, if they would just look through their inventories of contracts, to identify them. They have never had to do that, so they don't keep records that way, but it would be possible.

Ms. NORTON. Should they be required to keep records that way?

Ms. KINGSBURY. I think they should be required to do cost analyses on all of the decisions about contracting out. And that would lead to records, which would make that kind of total possible.

Ms. NORTON. Why does the OMB circular require that certain cost margins must be exceeded before approving a conversion from contracting in-house?

Ms. KINGSBURY. That cost margin is an A-76 requirement, not a requirement that applies to service contracts.

Ms. NORTON. In A-76, yes.

Ms. KINGSBURY. As we understand it, it was intended as a fairly conservative way of avoiding a situation where you bounced a contract in and out, in and out, and in and out. You know, one year you had it in-house; the next year, you had it out-of-house. So the 10 percent factor—and there is a 25 percent of the cost of assets you would have to buy to do the job that is also used—is a weighting factor to conservatively leave some—benefits is the wrong word—some weight in the current status, the status quo, to avoid too much turmoil in how a certain activity is produced. If you had a really tight competition year to year, you would have a situation where you ended up hiring employees 1 year, firing them and getting a contractor the next year and so forth. And it was intended to avoid that. Whether 10 percent is the right number, we've never looked at that.

Ms. NORTON. I want to thank you very much again, Ms. Kingsbury, for testimony that was very useful to us.

Ms. KINGSBURY. Thank you. I'm happy to be of help.

Ms. NORTON. The record needs to say the hearing is adjourned? It is.

[Whereupon, at 12:05 p.m., the subcommittee was adjourned.]

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